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Audit, Risk & Assurance Committee

Date: Tuesday 24 January 2023

Time: 10.00 am **Public meeting** Yes

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

Membership

Mark Smith (Chair)	
Councillor Ram Lakha OBE (Vice-Chair)	Coventry City Council
Councillor Peter Allen	Sandwell Metropolitan Borough Council
Councillor Dave Borley	Dudley Metropolitan Council
Councillor Craig Collingswood	City of Wolverhampton Council
Councillor Ken Meeson	Solihull Metropolitan Borough Council
Councillor Ram Mehmi	Walsall Metropolitan Borough Council
Councillor Yvonne Mosquito	Birmingham City Council
Councillor Nick Bardsley	Shropshire Council Non- Constituent Authorities
Councillor Mike Sutherland	Staffordshire non-constituent authorities
Councillor Richard Baxter-Payne	Warwickshire Non-Constituent Authorities
Councillor Tom Baker- Price	Worcestershire Non- Constituent Authorities
Kate Shaw	Greater Birmingham and Solihull Local Enterprise Partnership

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
07557 831344
Telephone
Email wendy.slater@wmca.org.uk

AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
1.	Apologies for Absence	Chair	None	
2.	Declarations of Interest (if any) 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.	Nomination of Substitutes (if any)	Chair	None	
4.	Chair's Remarks	Chair	1 - 34	
5.	Minutes - 4 October 2022	Chair	35 - 40	
6.	Matters Arising	Chair	None	
Business Items for Noting/Approval				
7.	Forward Plan	Chair	41 - 42	
8.	Annual Accounts 2021/22 for West Midlands Combined Authority (a) Annual Accounts for 2021/22 for WMCA (covering report) (b) WMCA Annual Accounts (c) Audit Findings of West Midlands Combined Authority (d) Letter of Representation	Louise Cowen/ Grant Thornton	43 - 216	
9.	Midland Metro Limited Annual Accounts	Louise Cowen	217 - 250	
10.	Internal Audit Report	Peter Farrow	251 - 266	
11.	Draft 2023/ 24 Internal Audit Plan	Helen Edwards/Peter Farrow	267 - 274	
12.	Strategic Risk Register	Peter Astrella	275 - 292	
13.	Treasury Management Mid-Year Report	Mark Finnegan	293 - 304	
14.	2023/ 24 Treasury Management Policy, Strategy & Practices	Mark Finnegan	305 - 330	

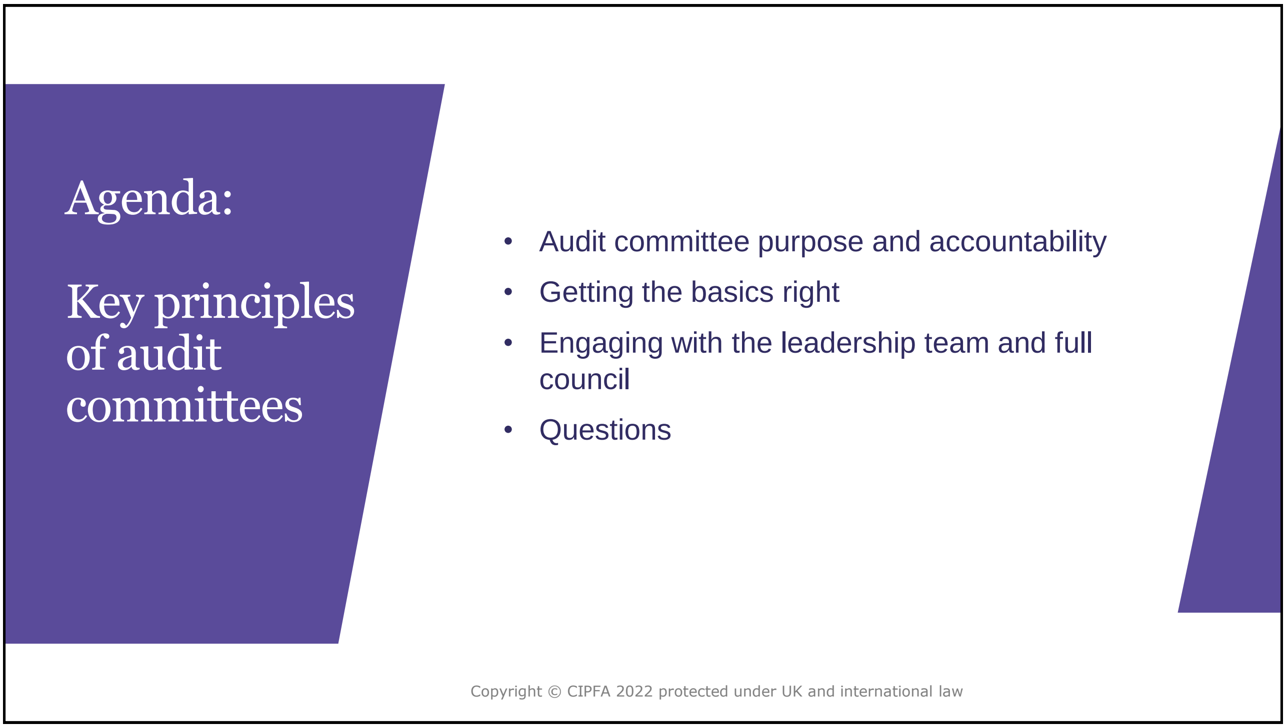
15.	Housing Investigation - Action Plan	Gareth Bradford/Helen Edwards	331 - 336	
16.	Investigation into Financial Breach - Metro City Centre Extension Wolverhampton	Helen Edwards	337 - 342	
17.	Exclusion of the Public and Press To pass the following resolution: That in accordance with Section 100A(4) 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	
18.	Appendix to Midland Metro Limited Annual Accounts - Audit Findings Report	Louise Cowen	343 - 368	
19.	Track replacement works re: Corporation Street & issues with the original contractor,Balfour Beatty	Michael Anderson	369 - 374	
Date of Next Meeting -18 April 2023				

CIPFA

West Midlands Audit Committee Chairs Forum

Diana Melville, CIPFA
5 December 2022

The Chartered Institute of
Public Finance & Accountancy



Agenda:

Key principles of audit committees

- Audit committee purpose and accountability
- Getting the basics right
- Engaging with the leadership team and full council
- Questions

Purpose and accountability

Diana Melville, CIPFA

Why have an audit committee?

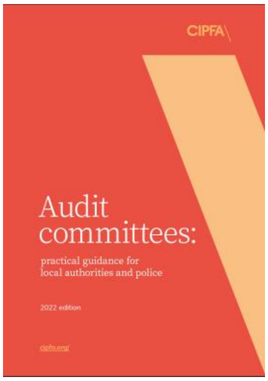
It supports:

- Awareness of internal control
- Implementation of audit recommendations
- Gives greater emphasis to audit
- Gives greater emphasis to risk
- Objective and fair financial reporting
- Independent, objective review
- Corporate governance expectations

CIPFA

Position Statement and supporting publication

- New Position Statement on Audit Committees in Local Authorities and Police
  - Issued April 2022 - download the statement
  - Additional resource: The audit committee and organisational effectiveness in local authorities
- New supporting publication, October 2022
  - Details



CIPFA

Audit committees:

practical guidance for local authorities and police

2022 edition

cipfa.org

DLUHC statement

"We will be making Audit Committees, with at least one independent member, a mandatory requirement, once Parliamentary time allows.

We will continue to consult with partners on how this should be implemented. In the intervening period, the government would encourage local bodies to establish their arrangements in line with CIPFA's guidance, including appointing independent members."

Government response to local audit framework: technical consultation, 31 May 2022

Purpose

“Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee’s role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.”

CIPFA Position Statement 2022

Defining accountability

To whom?	Who?	What?	Why?
Full Council	Audit committee	Fulfilment of terms of reference	To ensure the committee is fit for purpose
Leadership team, Full Council	Audit committee	Recommendations on governance, risk and control Outcome of audits	To ensure adequate arrangements are in place
Public (indirectly)	Audit committee in support of, or on behalf of the Council	Stewardship Governance, risk and control arrangements	Public money Decision making for public benefit

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Supporting internal accountabilities

- Follow up of internal audit recommendations
- Review of annual governance statement
- Monitoring of action plans from external audit or inspections
- Oversight of internal audit performance and standards
- Effective implementation of risk mitigations

Getting the basics right

Diana Melville, CIPFA

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What the Position Statement covers

- Purpose of the committee
- Establishing an independent and effective model
- Core functions:
  - Maintenance of governance, risk and control arrangements
  - Financial and governance reporting
  - Appropriate and effective arrangements for audit and assurance
- Audit committee membership
- Engagement and outputs
- Impact

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Audit committee v scrutiny committee

Audit Committee

- Independent of any services
- Focus on risk-related issues
- Focus on audit matters
- Challenge on implementation of decisions - arrangements
- Independent
- Apolitical

Scrutiny committees

- Linked to services
- Focus on outcomes and effectiveness
- Consultation with users and the public
- Challenge the basis of decisions
- More political challenge

Independent and effective model

The committee should:

- be directly accountable to the authority's governing body
- in local authorities, be independent of both the executive and the scrutiny functions
- have rights of access to and constructive engagement with other committees/functions
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

Include co-opted independent members:

- in accordance with the appropriate legislation or
- CIPFA recommends including at least two co-opted independent members

CIPFA Position Statement 2022

CIPFA

Composition

Small may be more effective

Party representation

External members – CIPFA recommendation

- Brings an extra dimension
- Chair?

Tenure and rotation

CIPFA

Where the audit committee can have impact

"Where it operates effectively, an audit committee adds value … by supporting improvement across a range of objectives"

Audit Committees, Practical Guidance for Local Authorities and Police, CIPFA 2022

THE INFLUENTIAL AUDIT COMMITTEE SUPPORTS:

GOOD GOVERNANCE AND DECISION MAKING

EFFECTIVE RISK MANAGEMENT

IMPROVING VALUE FOR MONEY

ACHIEVEMENT OF GOALS

IMPROVING PUBLIC REPORTING AND ACCOUNTABILITY

EMBEDDING ETHICAL VALUES AND COUNTERING FRAUD

EFFECTIVE AUDIT AND ASSURANCE

EFFECTIVE INTERNAL CONTROLS

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Maintenance of governance, risk and control arrangements (1)

Good governance

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.

- How is good governance embedded in the organisation?
- Values & behaviours, not just policies

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Maintenance of governance, risk and control arrangements (2)

Internal control

- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

Examples include:

- Compliance with CIPFA Financial Management Code
- Counter fraud strategy, fraud risks and evaluation
- Evaluation of approach to value for money

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Maintenance of governance, risk and control arrangements (3)

Risk Management

- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.

- Risk governance - to what extent should the audit committee act as a risk committee?

Core functions

Financial and governance reporting	Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
	Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Arrangements for audit and assurance

Assurance

- Assurance arrangements:
  - Across the organisation
  - For collaborations or arm's length bodies

Internal audit:

- Oversee its independence, objectivity, performance and conformance to professional standards
- Support effective arrangements
- Promote the effective use of internal audit

External audit:

- Consider their opinion, reports and recommendations
- Support effective arrangements, independence & audit quality
- Support effective relationships

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Audit committee time is precious!

What do you use your time on?

- Core functions?
- Other areas?
- What isn’t on the agenda, but should be?

How do you use your time?

- Items for information not action?
- Minor weaknesses that management should sort out?
- Backward looking – ‘what went wrong?’ rather than ‘what can we do better?’

CIPFA

Chair of audit committee

Key roles of the chair:

- Manage the agenda
- Ensure meetings are well run
- Review terms of reference – is the committee on track?
- Review membership, eg training and development needs
- Lead review of effectiveness
- Build and maintain key relationships

What makes a good audit committee chair?

- Meeting skills
- Knowledge & experience
- Interest
- Focus on improvement / output
- Encourages participation
- Intervenes to keep on track
- Objective attitude
- Follow up and representation

Engaging with the leadership team and full council

Diana Melville, CIPFA

23

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Key relationships for the audit committee

- Chief Executive
- Chief Financial Officer
- Service directors
- Monitoring Officer
- Head of Internal Audit
- Audit engagement partner

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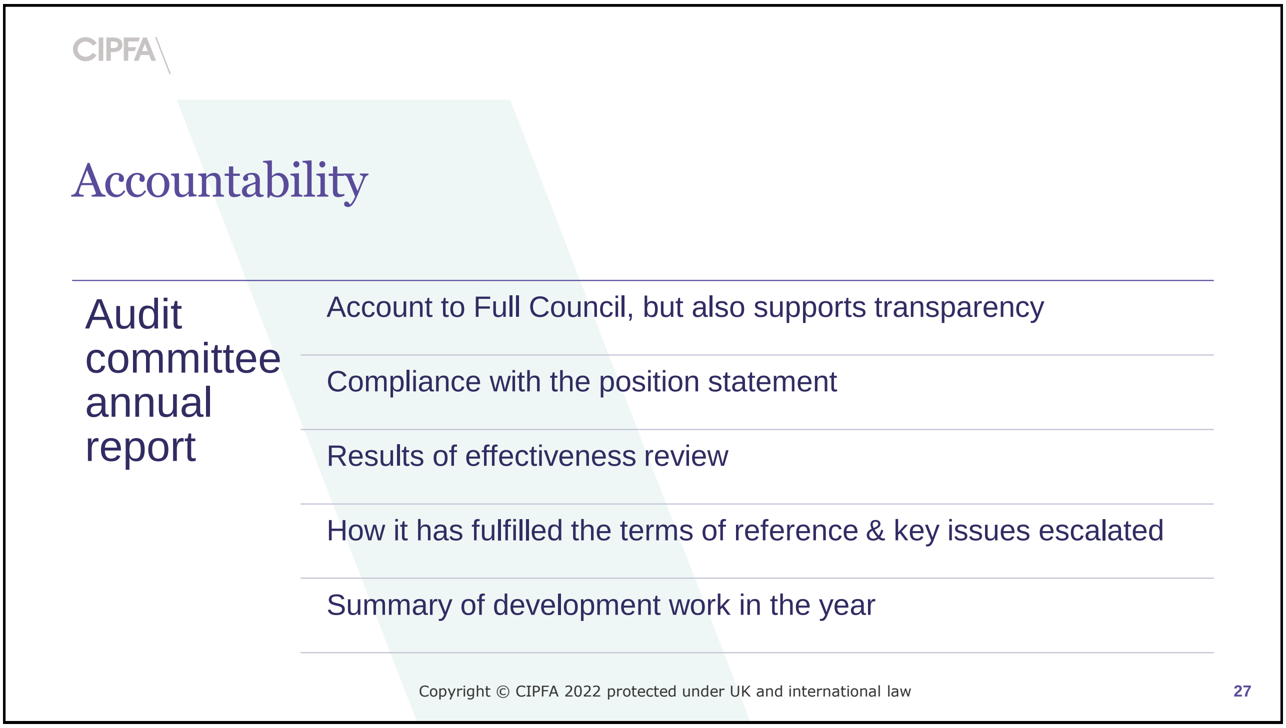
Ensuring the committee's voice is heard

Building blocks:

- Understanding of the committee's role and purpose across the council
- Building relationships – chair
- Communications
- Something to say –
    - Are you making recommendations?
    - Escalating concerns
    - What is different because of the committee's work?
- Accountability – annual report

Evaluating the effectiveness of the committee

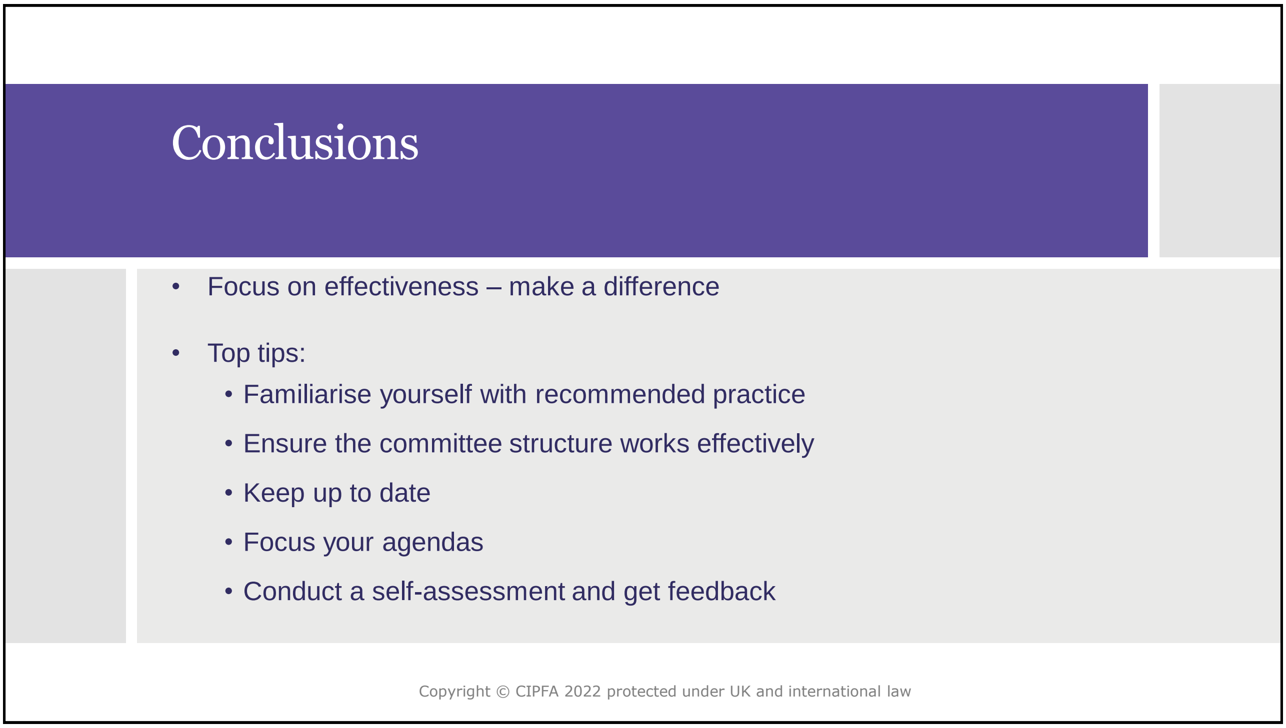
Review terms of reference	Against recommended practice What happens in practice?
Assess against recommended practice	See CIPFA improvement tool
Self-assessment of knowledge and skills	See the CIPFA Knowledge and Skills Framework
Self-assessment of impact	See the CIPFA Improvement tool
Obtain feedback	
Develop an action plan	Regular briefings on topics Training
Formal evaluation	



Accountability

Audit committee annual report

- Account to Full Council, but also supports transparency
- Compliance with the position statement
- Results of effectiveness review
- How it has fulfilled the terms of reference & key issues escalated
- Summary of development work in the year



Conclusions

- Focus on effectiveness – make a difference
- Top tips:
  - Familiarise yourself with recommended practice
  - Ensure the committee structure works effectively
  - Keep up to date
  - Focus your agendas
  - Conduct a self-assessment and get feedback

Your thoughts and questions

Thank you

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Twitter: @dianamelville

MIDLANDS
NET ZERO HUB

West Midlands Audit Committee Chairs Forum: Climate Change and Council Response

Tim Yair

Principle Net Zero Project Officer – The Marches

The Marches
Local Enterprise Partnership
Herefordshire - Shropshire - Telford & Wrekin

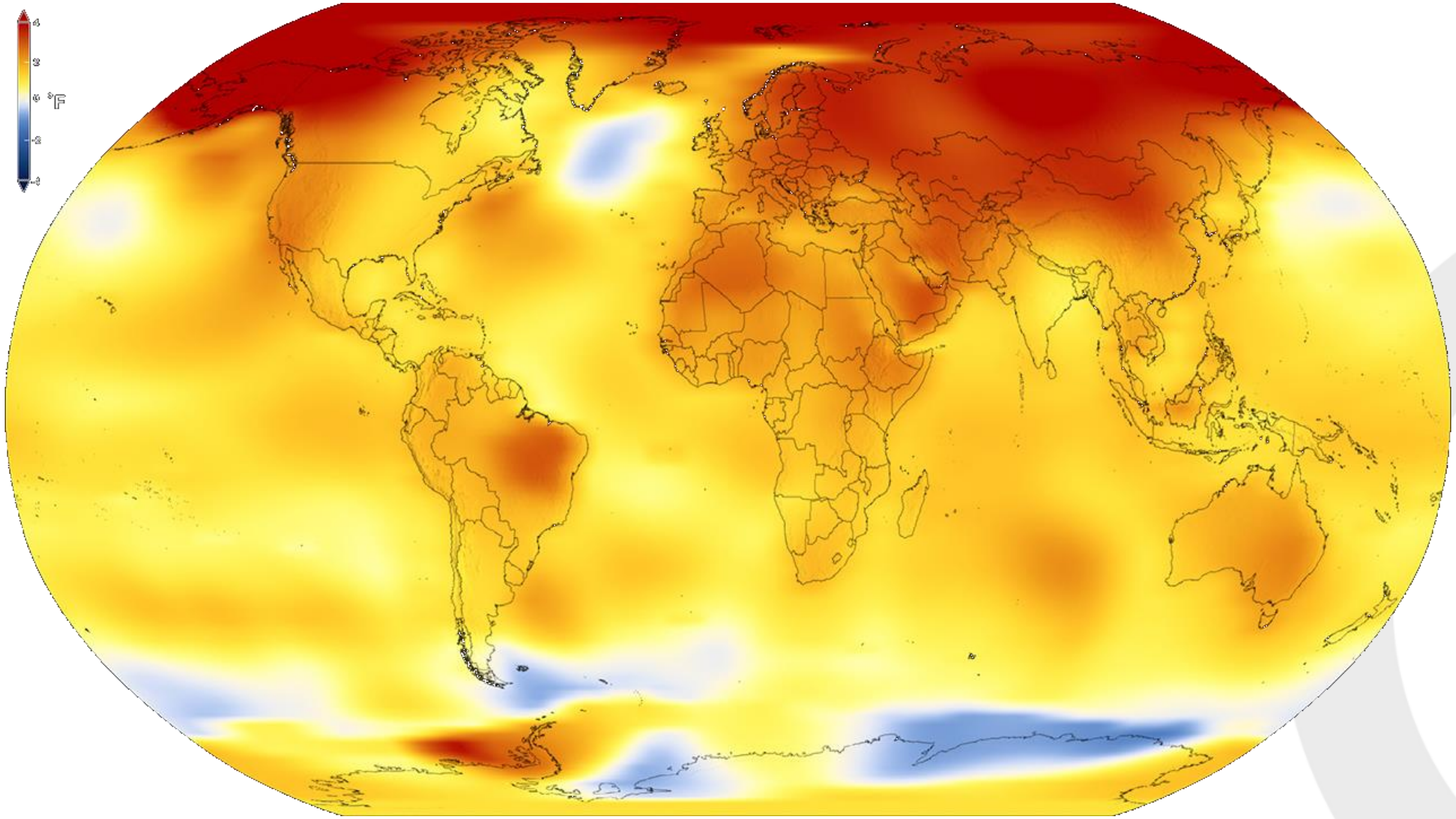
Nottingham City Council

Carbon Reduction, Energy and Sustainability

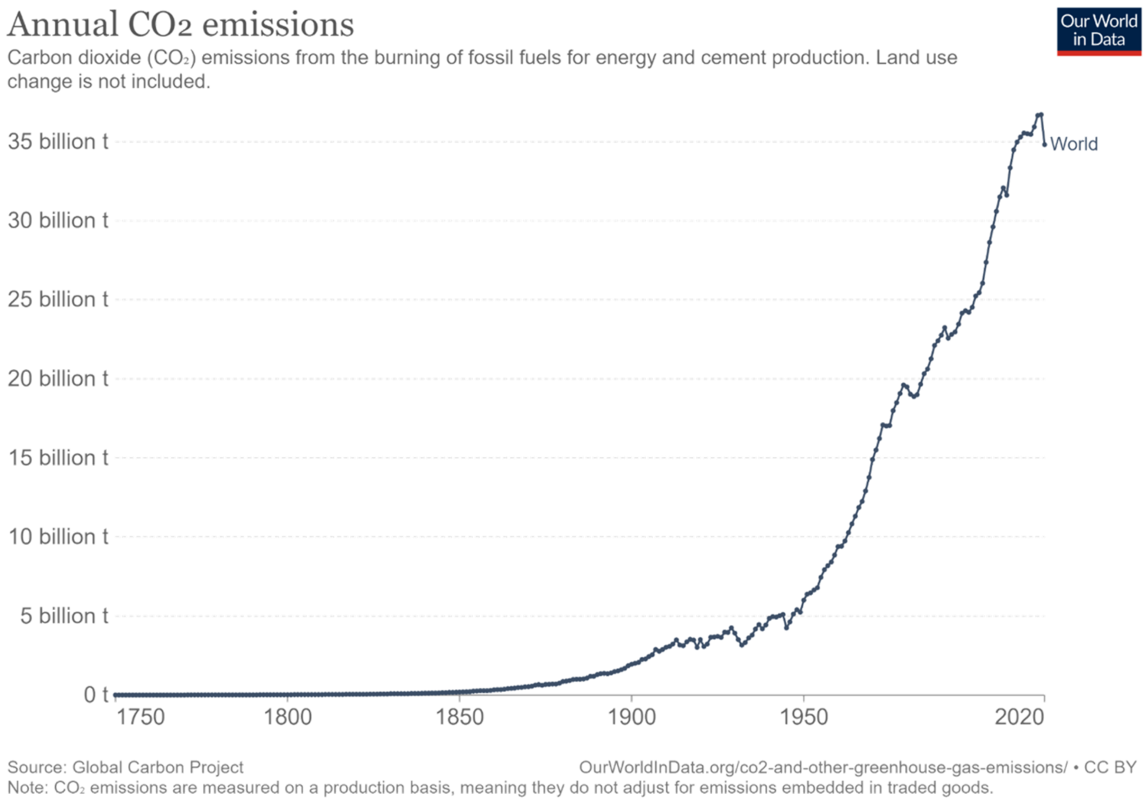
Introduction

- Brief introduction / re-cap on climate change
- The global picture
- The implications of the pledges
- The UK’s current carbon footprint
- The role of audit

Warming Planet



Increasing Greenhouse Gas Emissions



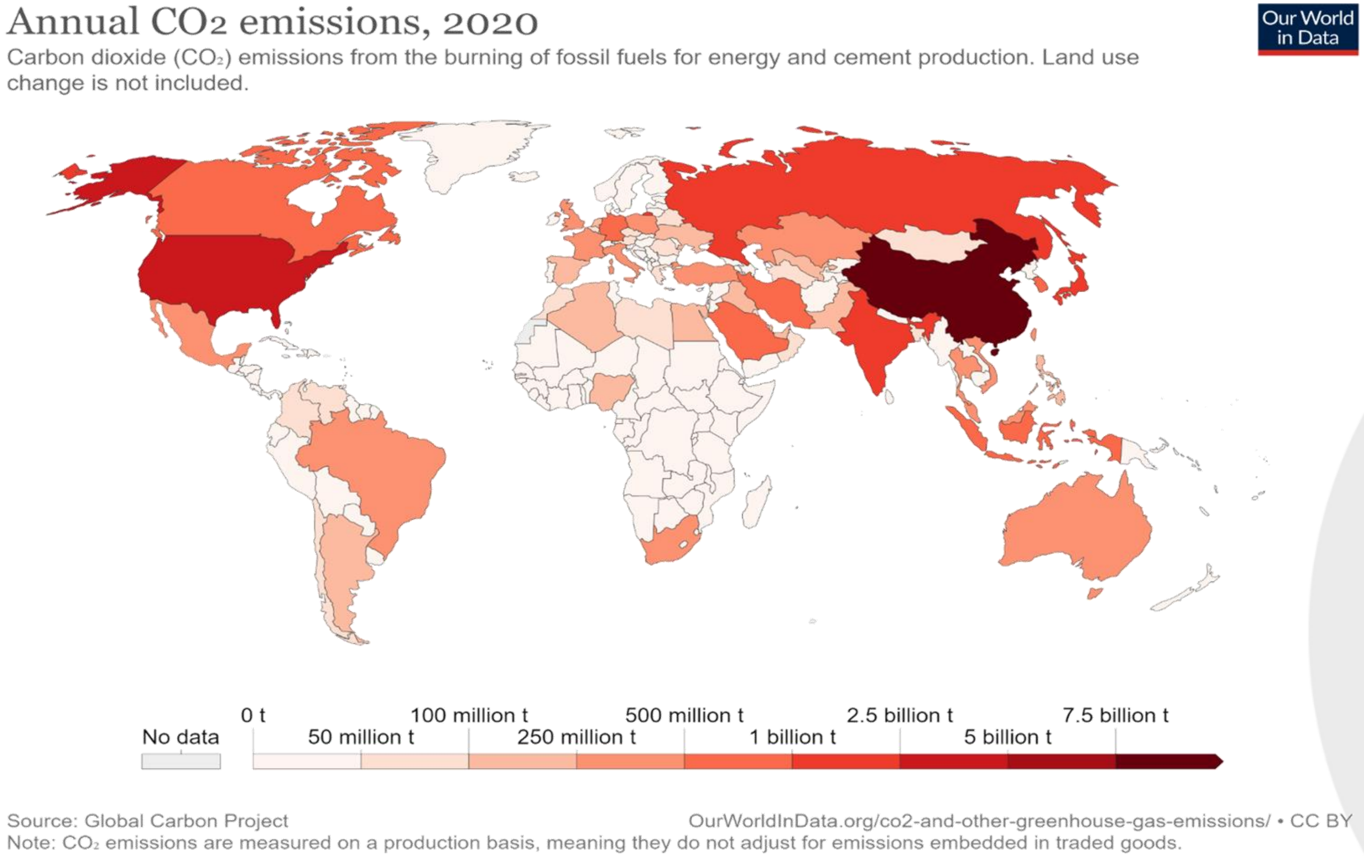
Annual CO2 emissions

Carbon dioxide (CO_2) emissions from the burning of fossil fuels for energy and cement production. Land use change is not included.

Source: Global Carbon Project OurWorldInData.org/co2-and-other-greenhouse-gas-emissions/ • CC BY

Note: CO_2 emissions are measured on a production basis, meaning they do not adjust for emissions embedded in traded goods.

Who’s Responsible?



Annual CO2 emissions, 2020

Carbon dioxide (CO₂) emissions from the burning of fossil fuels for energy and cement production. Land use change is not included.

Source: Global Carbon Project OurWorldInData.org/co2-and-other-greenhouse-gas-emissions/ • CC BY

Note: CO₂ emissions are measured on a production basis, meaning they do not adjust for emissions embedded in traded goods.

What has Been Done?

1992

Rio Earth Summit. UN Framework on Climate Change

1997

Kyoto Protocol

2016

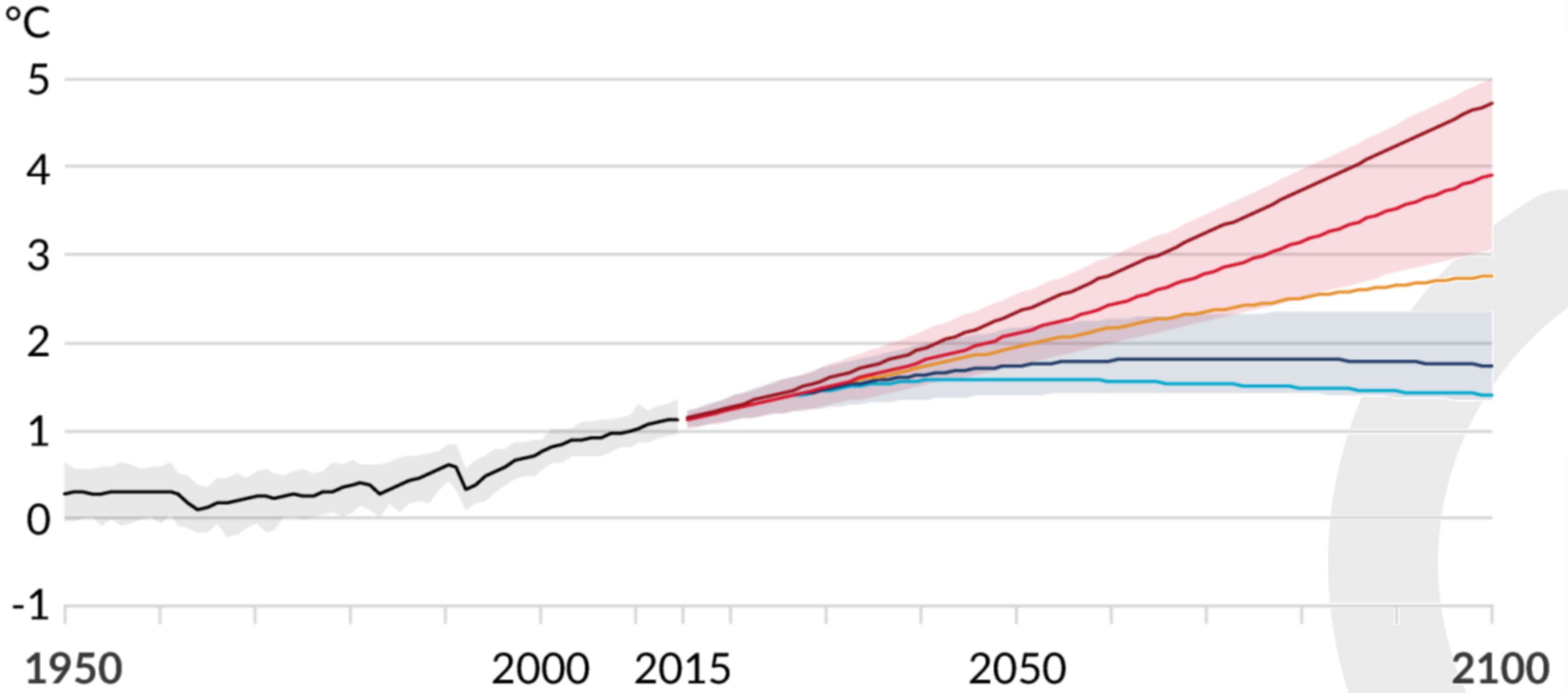
Paris Agreement

2021

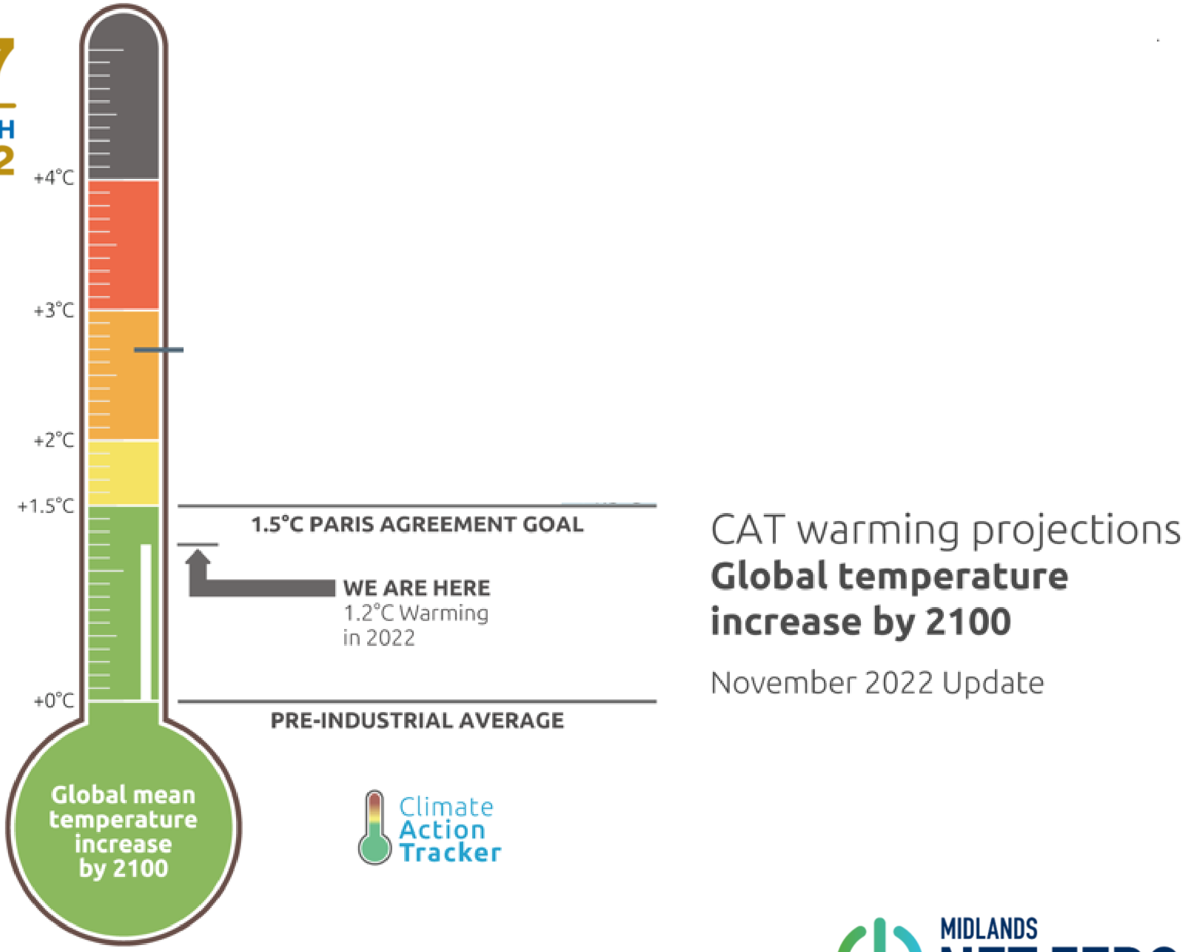
Glasgow Climate Pact

?

Where are we heading?



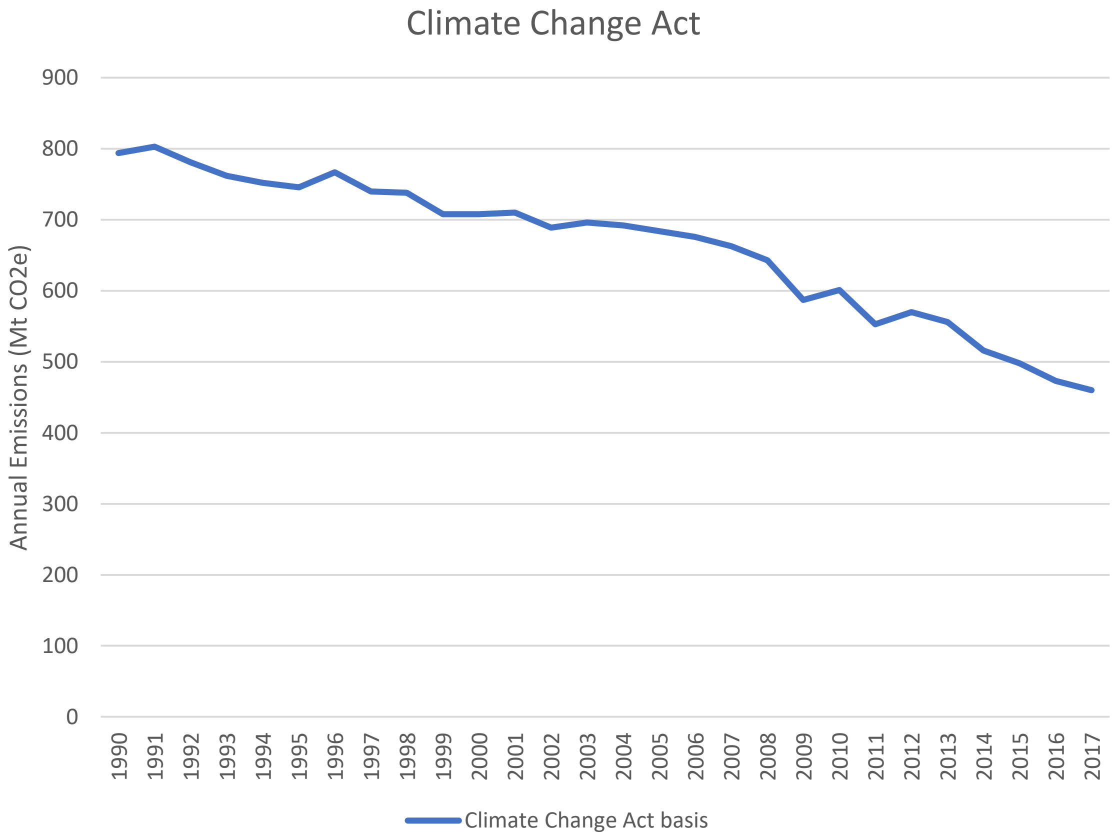
CAT Thermometer



CAT warming projections
Global temperature increase by 2100

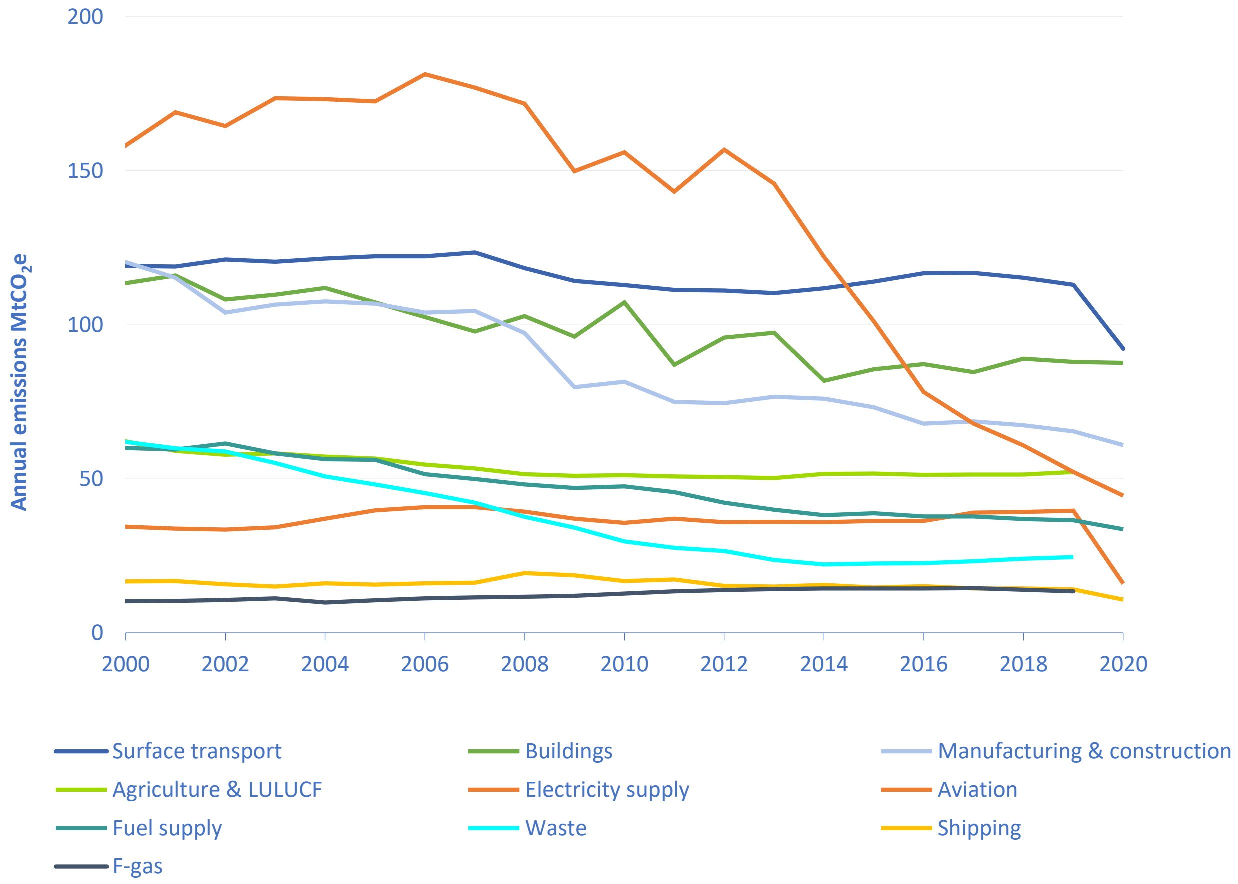
November 2022 Update

UK Emissions



- Based on territorial emissions
- Originally set 80% reduction compared with 1990 levels
- Amended in 2019, so Net-Zero by 2050 enshrined in law
  - Carbon reduction
  - Emission removal
- Decrease of around 50%

UK Emissions (by sector)



- UK emissions are nearly 50% below 1990 levels
- Not half-way there!
- Not an even decline across the economy
  - + Power (electricity)
  - - Transport
  - - Buildings
- Significant challenges remain

The Marches Local Enterprise Partnership
Herefordshire - Shropshire - Telford & Wrekin

MIDLANDS NET ZERO HUB

Nottingham City Council | Carbon Reduction, Energy and Sustainability

Rapidly Changing Policy Landscape

Over the past couple of years, the UK government has released a plethora of white papers, strategy and policy documents, guidance notes and delivery plans covering all areas of carbon emissions in the UK. These include:

- The Energy White Paper
- Ten Point Plan for a Green Industrial Revolution
- Sixth Carbon Budget
- National Infrastructure Strategy
- Net Zero Review (HMT)
- Transport Decarbonisation Plan
- Transitioning to zero emission cars and vans: 2035 delivery plan
- Heat and Buildings Strategy
- Hydrogen Strategy
- Industrial Decarbonisation Strategy
- English Devolution and Local Recovery White Paper
- Industrial Strategy (refreshed)
- Series of sectoral strategies for achieving net zero

ENERGY WHITE PAPER
Powering our Net Zero Future

December 2020
The Sixth Carbon Budget
The UK's path to Net Zero

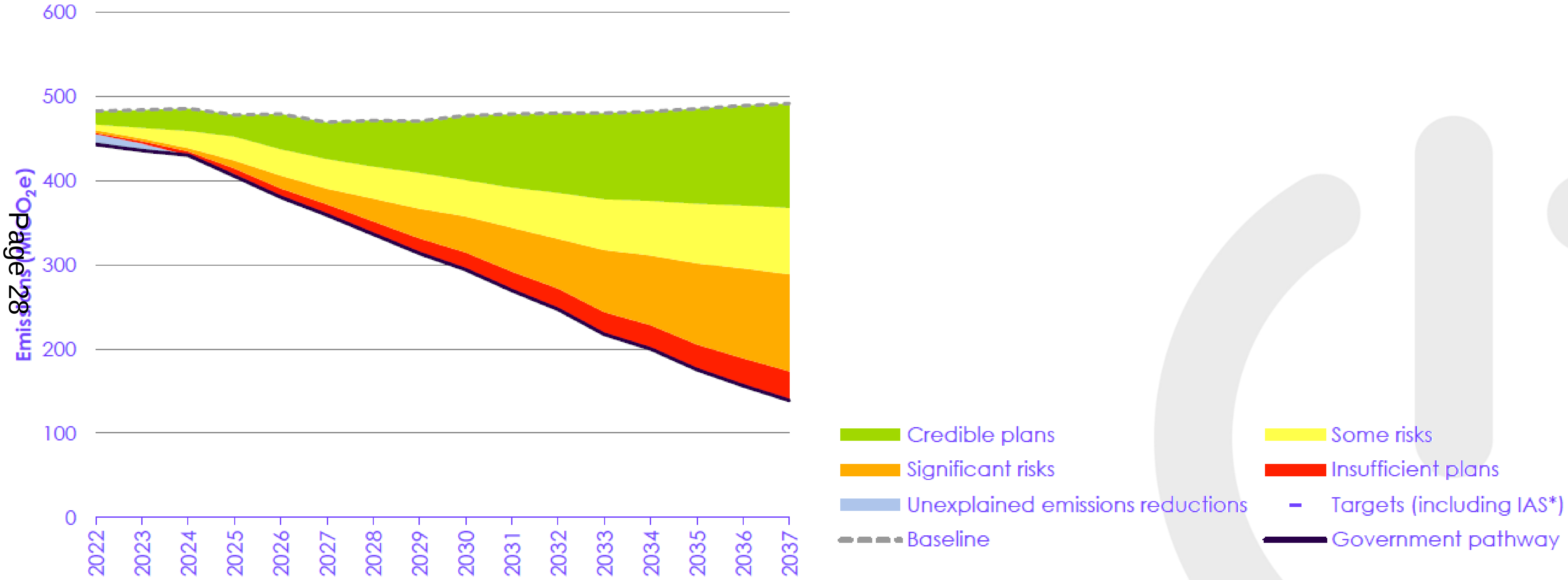
HM Government
The Ten Point Plan for a Green Revolution
November 2020

June 2021
Progress in reducing emissions
2021 Report to Parliament

Natio Infras Strate
Fairer, faster,
HM Treasury

HM Government
Net Zero Strategy: Build Back Greener
October 2021

Progress Against Ambition



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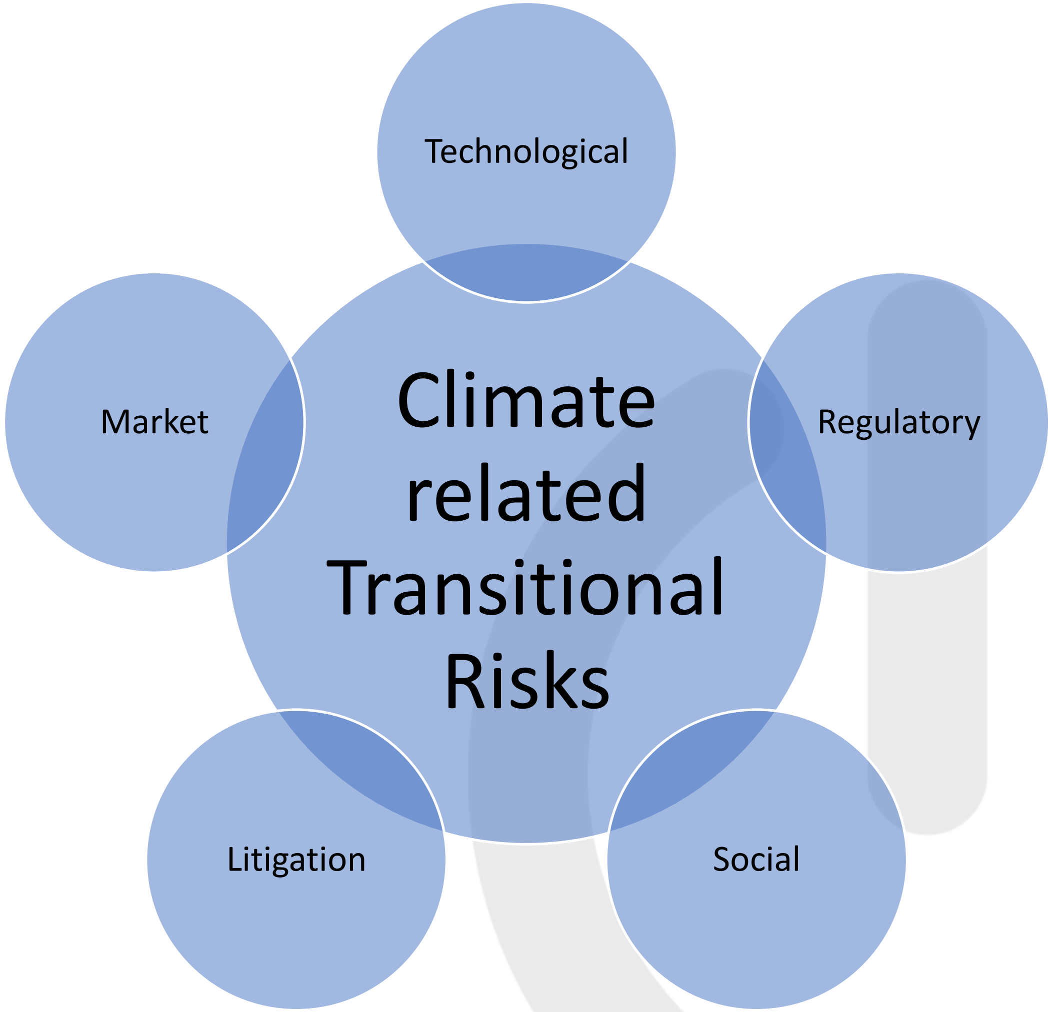
Midlands Net Zero Hub

Nottingham City Council

Carbon Reduction, Energy and Sustainability

Audit – Climate Risk

- Physical climate risks due to climate change.
    - represent foreseeable financial risks
    - Direct / Indirect
    - Most significant risk?
- Transition risks can affect physical, natural and human capital stock, labour supply, and productivity.
- Physical and Transitional risks interrelated
- In a high carbon future, the physical risks will be extreme and likely uninsurable.
- In a lower carbon future, the transition risks will be significant (in addition to the physical risks already being manifested).



Audit – Questions that should be asked!

- Responsibilities
  - What level of ownership / responsibility is held by the Board?
  - Have you considered the expertise and skills required to assess climate risks.
- Management
  - Is climate change integrated into corporate risk management system?
  - How are climate risks assessed over varying time periods?
  - Is the impact on supply chain considered (up and downstream)?
  - How are climate change targets managed and reported?
  - Is climate change embedded into strategic decisions and business plans?
  - Does you organisation consider adaptation as well as mitigation?
- Other Considerations
  - Is your reporting proportionate to level of risk?
  - How do you ensure up-to-date climate information is considered?

Audit – Key Points

- Climate change and its impacts are a recognised and growing risk.
- Uncertainty does not mean that potential foreseeable financial impacts can be ignored.
- An audit committee's responsibility should include ensuring that relevant climate risks and opportunities are integrated into assumptions and decisions.
- Climate risks and opportunities are likely to be increasingly raised by external auditors.
- Climate risk disclosure is not a tick box exercise, nor is there a One-Size-Fits-All solution to tackling the risk.
- Don't reinvent the wheel - There is a growing number of disclosure frameworks and best practice guidance for Audit committees to follow.

Summary

- The Global Picture
  - Climate Change is happening
  - Plenty of talk but actions required
- The implications of the pledges made at COP 27
  - Progress has been made, but…
  - Much more needs to be done to keep 1.5 degrees “in reach”
- The UK’s current carbon footprint
  - Progress has been made, but…
  - Government (at all levels) needs to make sure policies are getting back on track
- Audit
  - Very important role to play in ensuring decisions are made with regard to climate change

Links to Further Reading

https://www.nao.org.uk/insights/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/

https://www.pwc.co.uk/services/audit/insights/audit-committee-climate-reporting-checklist.html

https://www.iia.org.uk/policy-and-research/research-reports/harnessing-internal-audit-against-climate-change-risk/

https://www.accountancyage.com/2021/12/02/audit-committees-must-take-climate-change-a-lot-more-seriously/

https://www.frc.org.uk/getattachment/6b0ace1d-1d70-4678-9c41-0b44a62f0a0d/Guidance-on-Audit-Committees-April-2016.pdf

https://chapterzero.org.uk/knowledge-hub/governance/

Thank You!

Any Questions?

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Email: tim.yair@nottinghamcity.gov.uk

https://www.midlandsnetzerohub.co.uk

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Local Enterprise Partnership
Herefordshire - Shropshire - Telford & Wrekin

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Nottingham
City Council

Carbon Reduction,
Energy and
Sustainability

Agenda Item 5

West Midlands Combined Authority

Audit, Risk & Assurance Committee

Tuesday 4 October 2022 at 10.00 am

Minutes

Present

Mark Smith (Chair)	
Councillor Ram Lakha OBE (Vice-Chair)	Coventry City Council
Councillor Dave Borley	Dudley Metropolitan Council
Councillor Craig Collingswood	City of Wolverhampton Council
Councillor Ram Mehmi	Walsall Metropolitan Borough Council
Councillor Nick Bardsley	Shropshire Council Non-Constituent Authorities
Councillor Richard Baxter-Payne	Warwickshire Non-Constituent Authorities

In Attendance via Teams

Councillor Yvonne Mosquito	Birmingham City Council
Councillor Charn Padda	Sandwell Metropolitan Borough Council

Item No. **Title**

16. Inquorate meeting

It was reported that the meeting was inquorate and therefore the recommendations contained within the minutes would be submitted to the WMCA Board on 28 October 2022 for formal approval and adoption.

17. Apologies for Absence

Apologies for absence were received from Councillor Allen (Sandwell) and Councillor Meeson (Solihull).

18. Notification of Substitutes

Councillor Padda attended the meeting via Teams on behalf of Councillor Allen.

19. Chair's Remarks

The Chair reported on recent activities he had undertaken including meetings he had attended on behalf of the committee.

He also informed the committee that Coventry & Warwickshire Local Enterprise Partnership, the nominated LEP representative on the committee was in the process of being disbanded and therefore there was currently no LEP member on the committee.

20. Minutes - 7 July 2022

The minutes of the meeting held on 7 July were agreed as a true record.

21. Matters Arising

Minute no. 14 Cyber Essentials Report

Further to consideration of the Cyber Essentials Report at the last meeting, it was confirmed that the WMCA had made a new submission against the new enhanced Cyber Essentials accreditation criteria last month.

22. Forward Plan

The committee considered a report on agenda items to be submitted to future meetings.

In relation to the terms of reference for the committee which are under review and are scheduled to be submitted to the next meeting, the interim Director of Law and Governance, Satish Mistry, reported that the new Director of Law and Governance (joining the WMCA in January 2023) might want to be involved in this area of work and would therefore look to re-schedule this item to a future meeting.

It be recommended to the WMCA Board that:

The report be noted.

23. Public Sector Audit Appointments: Audit Quality Monitoring Report 2021 and Auditor Appointment for 2023 - 2028

The committee considered a report of the Executive Director of the Finance and Business Hub that had been prepared to share a summary of the Public Sector Audit Appointments Audit Quality Monitoring Report for 2020-2021 which had been published in March 2022.

The Head of Financial Management, Louise Cowen, outlined the report that covers the work of local auditors appointed by the Public Sector Appointments Limited (PSAA) for the financial year 2019/20.

It was also noted that on 3rd October, the PSAA had announced the outcome of the procurement process for external auditors for the 5 years from 2023/4 through to 2027/8. However, at this stage it had not been confirmed as to the specific auditors for the WMCA for this period and the Chair asked that he be notified of this matter as soon as it was confirmed.

It be recommended to the WMCA Board that:

The report be noted.

24. WMCA Audit Progress Report and Sector Update

The committee considered a report of the Executive Director of Finance and Business Hub. Attached to the report was an appendix prepared by Grant Thornton that provided the committee with an update in delivering their responsibilities as the WMCA's external auditors.

Grant Patterson, Grant Thornton, presented the report and advised the committee of the factors that had delayed this year's audit deliverables until November, and reported that the Auditor's Annual Report was now planned for December.

It be recommended to the WMCA Board that:

The report be noted.

25. Health & Safety Annual Update

The committee considered a report of the Director of Integrated Transport Services that provided an annual update on health and safety.

The Health and Safety Manager, Ben Gittings provided a summary of the principle activities relating to the promotion and management of health and safety outcomes during the year and outlined the strategic direction for occupational health and safety within the wide-ranging remit of the West Midlands Combined Authority. He reported that there no specific areas of concern or areas that required attention and that he was looking to benchmark the WMCA with other Combined Authorities and organisations.

The Chair commented that benchmarking the WMCA against others would provide a good opportunity to learn good practice.

It be recommended to the WMCA Board that:

The annual update on health and safety be noted.

26. Strategic Risk Update

The committee considered a report of the Executive Director of Finance and the Business Hub that provided the committee with the visibility of the strategic risks faced by the WMCA and the monitoring of risk management.

The Risk Manager, Peter Astrella, outlined the report, highlighting the key messages discussed by the WMCA's Strategic Leadership Team and the new risks added since the last meeting.

In relation to an enquiry from the Chair regarding whether the committee should be aware of any risks relating to pensions given the recent volatility in the markets, the Executive Director of Finance and the Business Hub, Linda Horne, reported that pension risks would apply to all of the public sector and that she received regular updates on the West Midlands Pension Fund position.

Grant Patterson, Grant Thornton advised the committee that he was the auditor of the pension fund and was not aware of any specific issues of concern.

The Chair asked that an update on the pension fund risk be submitted to a future meeting.

Councillor Collingswood noted the risk relating to Metro availability focuses on cracks to tram tracks and enquired whether this should also capture the planned strike action by Metro staff.

The Risk Manager reported that the risk relating to the Metro had been changed to remove the numerous wider risk causes affecting tram availability and focused instead on the cracks. The strike action had been announced recently and after the committee report had been prepared, however, TfWM have operational risk registers that capture various risks and control activity.

It be recommended to the WMCA Board that:

1. The key messages in the Strategic Risk Update be noted and
2. That revisions or planned revisions to the Strategic Risk Register be noted.

27. Single Assurance Framework - Assurance Performance Report - April to August 2022

The Committee considered a report of the Executive Director of Finance & Business Hub that provides details of thematic performance information from WMCA projects that have been assured through the Single Assurance Framework (SAF). The report also outlines progress of WMCA directorates transitioning to the new SAF assurance and governance arrangements and includes Programme Assurance and Appraisal Team activity from April 2022 to August 2022.

The Head of Programme Assurance and Appraisal, Joti Sharma, highlighted key matters in the report. The Chair commented that he was pleased to note that the Housing, Property and Regeneration directorate was now transitioning on to the SAF but expressed disappointment that it had taken so long for this to happen.

It be recommended to the WMCA Board that :

1. The contents of the report be noted and
2. The attached Single Assurance Framework which has been updated in accordance with annual review requirements mandated by Government (the updated SAF now meets the National Local Growth Assurance Framework requirements, published by the Cabinet Office in September 2021) that is to be submitted to the WMCA Board for approval in November 2022 be noted.

28. Internal Audit Update - October 2022

The committee considered a report from the Interim Director of Law and Governance that provided an update on the work completed by internal audit so far this financial year.

In relation to concerns expressed by the Chair regarding the number of audits outstanding from 2021/22 that are yet to be completed, alongside audits for the current financial year and whether internal audit are confident they can deliver these on time, the Head of Audit, Peter Farrow advised that he hopefully had the resources for delivery and advised that time has been assigned for each audit.

It be recommended to the WMCA Board that:

The contents of the Internal Audit Update report be noted.

29. Exclusion of the Public and Press

Resolved:

That in accordance with Section 100A4 of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items of business as they involve the likely disclosure of exempt information relating to the business affairs of any particular person (including the authority holding that information).

30. Whistleblowing Investigation - Adult Education Services

The committee considered a report of the Interim Director of Law and Governance that presented the findings of an investigation undertaken following receipt of a whistleblowing claim regarding the non-compliance of a contractual agreement in place between a provider of adult education services (as identified in the report) and the WMCA.

It was noted that the two core recommendations relating to subcontracting and performance review have been progressed by officers.

The Director of Employment and Skills, Clare Hatton was in attendance to respond to enquires from the committee relating to the case.

It be recommended to the WMCA Board that:

The contents of the report be noted.

31. Whistleblowing Investigation – Housing

The committee considered a report of the Interim Director of Law & Governance that presented the findings of a whistleblowing investigation regarding the basis on which external valuations had been obtained in connection with land purchases and the potential distortion of property valuations when the WMCA has conducted its land and property transactions as part of the work undertaken by Housing and Land.

The Interim Director of Law & Governance, Satish Mistry outlined the background to the report and introduced Andrew Round and Mark Whitehouse from CBRE who had undertaken an independent investigation on behalf of the WMCA.

Andrew Round presented the report, outlined key findings, recommendations and responded to questions from members.

The Interim Director of Law and Governance, Satish Mistry reported that a response and action plan would be prepared with the Executive Director Housing, Property and Regeneration for consideration by the committee at a future meeting.

It be recommended to the WMCA Board that:

1.The findings contained in the report be noted and
2.That an action plan in response to the report recommendations be shared with the committee in due course be noted.

The meeting ended at 12.30 pm.

AUDIT, RISK AND ASSURANCE COMMITTEE				
COMMITTEE MEETING		**REPORT AND AUTHOR**	**AGENDA BRIEFING MEETING**	
Date of Meeting	***Date Final Reports to be submitted to Governance Services***		***Date of Meeting***	***Draft reports for send out***
18 April 2023	**5 April (due to Easter public hols)**	• Annual Audit Report (Peter Farrow) • Draft Annual Governance Statement (Helen Edwards) • Strategic Risk Register (Peter Astrella) • Final Internal Audit Plan 2023/24 (Peter Farrow) • Assurance Report (Joti Sharma) • Terms of Reference (Helen Edwards) • Government Response to Local Audit Framework : Technical Consultation (Louise Cowen) • Risk relating to the WMCA/WM Pension Fund (Linda Horne) • External Audit Plan for 2023/24 (Linda Horne/Grant Thornton)	**30 March**	**27 March**

Audit, Risk & Assurance Committee

Date	24 January 2023
Report title	Annual Accounts 2021/22 for West Midlands Combined Authority
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: Laura.Shoaf@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Linda Horne, Executive Director of Finance and Business Hub 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 the annual accounts.
(2) Note the Audit Findings Report presented by Grant Thornton.
(3) Note that Grant Thornton propose to issue an unqualified audit opinion for the accounts.
(4) Approve the signing of the letter of representation by the Executive Director of Finance and Business as set out in Appendix F of the Audit Findings Report.
(5) Approve that the Chair of Audit, Risk and Assurance Committee be authorised to sign off any further changes required to the Statement of Accounts for 2021/22 prior to publication.
(6) Subject to no further issues being raised by Grant Thornton, approve that the Mayor and the Executive Director of the Finance and Business Hub be authorised to sign the accounts on behalf of WMCA.

1.0 Purpose

1.1 This report has been prepared for the Audit, Risk & Assurance Committee to approve the annual accounts of the West Midlands Combined Authority (WMCA) for the financial year ended 31 March 2022.

1.2 The audit has been completed without any significant issues to report.

2.0 Background

2.1 The draft accounts for 2021/22 were shared with members of the committee when the audit process commenced on 27 June 2022.

2.2 A detailed briefing and review of the annual accounts was undertaken with the Chair of Audit, Risk & Assurance Committee and WMCA Finance to provide assurance that the accounts presented reflected the activities for the 2021/22 financial year.

2.3 The audit process has now concluded and the following are attached for review and approval:

i) West Midlands Combined Authority financial report 2021/22
ii) Grant Thornton Audit Findings Report (including Letter of Representation - Appendix F)

3.0 Annual Accounts

3.1 The West Midlands Combined Authority Board has received regular financial monitoring updates throughout 2021/22. The final outturn position for 2021/22 was reported to West Midlands Combined Authority Board on 10 June 2022.

3.2 The audit process has now concluded, and Grant Thornton will present their findings to the committee with their proposal to issue an unqualified audit opinion on the accounts. The Narrative Report, Annual Governance Statement and consideration of events after the Balance Sheet date will need to cover the period up to the date of publication and will therefore need to be kept under review until the accounts are formally published. Authority is therefore sought for approval of the final updated Narrative Report, Annual Governance Statement and any required amendments to the accounts for 2021/22 to be delegated to the Chair of Audit, Risk and Assurance Committee.

4.0 Financial Implications

4.1 The financial implications are covered within the body of this report and the attached annual accounts reflect the results for the year ended 31 March 2022.

5.0 Legal Implications

5.1 Production of these accounts is a statutory requirement.

6.0 Equalities Implications

6.1 Alternative formats for these accounts are available upon request.

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 West Midlands Combined Authority financial report 2021/22
10.2 Grant Thornton The Audit Findings Report for West Midlands Combined Authority – Year ended 31 March 2022

West Midlands
Combined Authority

Statement of Accounts

For the year ended 31 March 2022

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Contents

Review of Operations and Statutory Reports

Financial Statements

Welcome to the West Midlands Combined Authority's Statement of Accounts for the financial year ended 31 March 2022. These accounts provide the reader with a view of West Midlands Combined Authority's financial performance and its effectiveness in its use of resources during the year and are therefore a key element in demonstrating sound financial stewardship of taxpayers' money as well as ensuring that key stakeholders understand the financial position of the West Midlands Combined Authority ('the Authority').

The Statement of Accounts for the year ended 31 March 2022 has been prepared in accordance with the requirements of the Accounts and Audit Regulations 2015. The format reflects the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards.

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

The Narrative Report has been prepared to outline the activities for the year 2021/22, providing both a guide to the Authority's accounts and to its achievements in delivering inclusive economic growth through transport and economic development as well as setting out the economy, efficiency and effectiveness in its use of resources in doing so.

1. COVID-19 impact

The COVID-19 pandemic has had a significant impact on the Authority's finances and the way it has provided its services over the last two financial years. However, following the Government's easing of restrictions on the 21 February 2022, under their COVID-19 Response: Living with COVID-19 guidelines, we are now in the recovery phase of the pandemic. Some of the main areas affected by COVID-19 during 2021/2022 are detailed below.

Impact on priorities and portfolios

We came together as a region, continuing to deliver vital frontline services despite extraordinary pressures, setting up new programmes in response to the unfolding situation, addressing gaps in support, lobbying government and allocating funds to support our communities.

In terms of the wider economic recovery of the West Midlands region, WMCA's response to the pandemic has evolved over the past year as we've understood more clearly its impact on every aspect of our lives. Almost all the Authority's workforce have had to adapt their work programmes in response to changing circumstances, and senior leaders have played a central role in both the emergency response and in subsequent 'recovery' activities. The Authority has collaborated and engaged with key regional stakeholders, and the following overview details our response to date, progress achieved, and identifies the issues we need to focus on in the next phases of our journey towards recovery.

- Existing plans were adapted (LEP Sector Action Plans, Local Council Plans) and new recovery plans and priorities created (LEP and Local Authority Recovery Plans, 10 Leaders Recovery Priorities, Community Recovery Prospectus, WM Young Combined Authority Priorities)
- New, collaborative governance structures were set up to guide our response (Recovery Forum, Economic Impact Group, Regional Economic Implementation Group, SteerCo, LEP and Local Authority Covid Recovery Taskforces, Jobs and Skills Delivery Board)
- Programme delivery was tailored (Pivot and Prosper, Thrive at Work, Local Authority, LEP and University led Business Recovery Webinars, Digital Skills support and Employment support)
- We researched and understood our citizens' experiences, engaging with people across the region (Community Recovery Prospectus, WM Faith Forum Roundtable, Business Surveys, Community Outreach)

- Evidence was developed and guided our decision making (WM Regional Economic Development Institute (WMREDI) Economic Monitor, Health of the Region Report, Citizens Panel, Growth Hubs and Chambers of Commerce Business Surveys)
- We articulated our asks and our regional opportunities to government, coming together as a collective regional voice (31 Recharge priorities, 3 Calls to Action, campaigns including #BackOurBusinesses led by Chambers of Commerce)

Looking ahead, one of WMCA's corporate Aims & Objectives in 2022/2023 is to ensure everyone has the opportunity to benefit as the region recovers from COVID-19, improves resilience and tackles long-standing challenges. To achieve this, we will work with local authorities, Jobcentres, colleges and training providers to ensure our communities are given training and employment support to access and succeed in new opportunities. We will work with partners to identify and address the different barriers faced by our diverse communities. We will support social innovation to tackle complex and longstanding challenges facing our communities, where mutually agreed with partners.

Impact on the Authority's workforce

WMCA has complied with and implemented regulations and requirements throughout the COVID-19 pandemic in response to UK Government legislation.

In preparation for the Governments easing of restrictions in England in July 2021, WMCA surveyed its workforce, with results showing that 9 out of 10 staff would like to continue to work from home for at least some of the working week. With these results in mind, WMCA developed a flexible approach to the workplace, led by our business needs as an organisation, whilst retaining some of the benefits of working from home. During the summer, we re-imagined the space at our Summer Lane head office to accommodate hybrid working and COVID-19 safety measures, with staff returning to the office in the first of the team zones in September 2021, though subsequently adhering to temporary lockdown measures in December 2021 in respect of the Omicron variant. Following the easing of these restrictions, attendance in the office continues to increase with the majority of the workforce now actively participating in the hybrid working arrangements.

During the period of enforced remote working, the Authority kept records of COVID-19 related sickness absence as part of monitoring the impact of the pandemic, though COVID-19 absence did not count towards the sickness absence triggers for staff. It was found that due to the implementation of hybrid working and people being able to work fully from home, levels of sickness did not spike. It was shown that staff were able to carry on working if they had tested positive for COVID-19 but did not have symptoms that prevented them from doing so.

It is also important to highlight that during the period of enforced remote working, business as usual across all directorates was successfully achieved by staff adapting to home working, and our critical staff kept the regions transport system operational throughout the pandemic.

Going forwards, WMCA supports the UK Government's Living with COVID-19 strategy (published in February 2022 with further updates in March, April and May) and recognises the importance of having a cohesive, organisation-wide plan and continuing to promote conversations between managers and employees as part of protecting the physical and mental health of our workforce.

The plan, operational in June 2022, will take an approach that is led by the principles of what is fair and reasonable to ask, respecting that many people (especially the 3% of our workforce who have been identified as Clinically Extremely Vulnerable) may still be concerned about coming into places of work. Our priority is to continue to review and maintain existing practices which keep all of our workplaces as safe as is reasonably practicable and which support WMCA in meeting our fundamental duty of care to protect the physical and mental health of employees.

WMCA will communicate our approach and operational procedures to partners, stakeholders and industry bodies - sharing our experiences to assist them with their own adoption of the latest COVID-19 strategy.

Impact on the Authority's supply chain

In respect of supply chain risk, the Authority continues to follow guidance issued by the Cabinet Office in June 2020: 'Procurement Policy Note – Recovery and Transition from COVID-19'. This Procurement Policy Note (PPN) sets out information and guidance for public bodies on payment of their suppliers to ensure service continuity during the current coronavirus, COVID-19, outbreak. It updates and builds on the provisions contained in PPN 02/20.

Actions taken include:

- a review of the Authority's contract portfolio, including the provision of any contractual relief due to COVID-19.
- the development of transition plans, in partnership with suppliers, to exit from any relief as soon as reasonably possible. This includes agreeing contract variations if operational requirements have changed significantly.
- working openly and pragmatically in partnership with our suppliers during this transition, ensuring contracts are still relevant and sustainable and deliver value for money over the medium to long term; and
- continuing to pay suppliers as quickly as possible, on receipt of invoices or in accordance with pre-agreed milestone dates, to maintain cash flow and protect jobs.

Impact on reserves, financial performance and financial position

The Authority has a general fund balance of £1.6m at the end of 2021/22 (2020/21: £2.3m), representing 0.43% of net cost of services in the year. In addition, the Authority had balances of £56.6m in general fund earmarked reserves at the end of 2021/22 (see note 29 to the accounts on page 92) (2020/21: £41.0m). This balance includes amounts earmarked for specific risks which will remain present in the Authority's planning environment independent of the COVID-19 crisis.

Whilst there is a significant gap in funding for future years in the Medium-Term Financial Plan, this is being addressed corporately through consultation with Mayor and Local Authority Member Leaders to determine a long-term funding solution for WMCA.

The Authority continued to include consideration for the impact of COVID-19 in its provision for anticipated credit losses and there was no significant change from the previous year in relation to COVID-19. The movement on the credit losses can be found in note 34 on page 105.

The impact of the crisis on the Authority has been most profound in terms of the loss of major income streams for a prolonged period, through reduced patronage for light rail for example, a loss of approximately £4.5m in the year which was supported by the Department of Transport in the form of Light Rail Restart Grant and a drop in other transport related income of around £0.9m which was also partially offset by Government grant. Capital project delivery timescales have been impacted as programmes were rescheduled with a delayed effect on the realisation of the project benefits for the West Midlands region.

This impact is more significant on the Authority's subsidiaries, especially Midland Metro Limited, where passenger revenues make up the majority of its income, although the DfT made good those losses in the form of Light Rail Revenue Restart Grant throughout the financial year 2021/22.

In 2020/21, the support given by the Authority to Bus operators through subsidised services and the concessionary fares schemes was directed by the Cabinet Office guidance. In 2021/22, the Government strongly recommended that Authorities' support to Bus operators remained the same, given the continued impact of COVID-19 and the fact that patronage remained at relatively low levels. The change which had been made to the Concessions legislation in 2020 from "No better, no worse off" to just "no worse off" was extended to March 2022. This has allowed Authorities to continue to pay operators on pre-COVID levels. Subsidised services provision returned to pre-COVID levels part-way through 2020/21 so operators have been reimbursed as normal for these and no further provision has had to be made.

Grants and reliefs administered on behalf of Central Government

Since the start of the pandemic, the Authority has received various grants from the Department for Transport (DfT) and the Department for Education (DfE) to recompense the Authority, its bus operators and constituent authorities for the prolonged loss of major income streams due to the pandemic.

On 9 April 2020, the DfT announced extra funding for bus operators and local authorities, to support bus services during the COVID-19 pandemic.

- The local transport authority element of COVID-19 Bus Services Support Grant (CBSSG) was allocated to support local bus services for lost fares revenue. This included tendered bus services that were experiencing revenue shortfalls. The aim was to ensure that local bus services continued to operate appropriately during the COVID-19 pandemic. Most of the grant claimed by the Authority was passed to the bus operators based on service provision. Some of the grant was retained by the Authority to cover direct costs experienced by the Authority as a result of the pandemic, such as enhanced cleaning and increased information requirements.
- CBSSG was replaced by the Bus Recovery Grant (BRG) from 1 September 2021. BRG is paid to local transport authorities (LTAs) and operators to provide support for lost fares revenue on both commercial and tendered services. BRG for commercial services was paid directly to operators, whilst for tendered services it was paid to LTAs to distribute to operators. Unlike CBSSG, BRG was not designed to “plug the gap” between revenue and costs. It was a contribution towards the impact of lower sales revenue and, unlike CBSSG, operators were allowed to make a profit whilst claiming it.
- In August 2021 the DfT also provided support to LTAs to help them develop their own travel demand management (TDM) programme to manage the effects of the COVID-19 pandemic on the transport system.

Additionally, the sales, fees and charges grant from the DfT has compensated the Authority for lost transactional income from customer receipts generated from parking and public transport up to 30 June 2021.

The grant from the DfE supported additional Bus services to ensure that students were able to travel safely to and from schools and colleges. Some of this funding was spent on additional network services procured directly by the Authority, with the remainder passed to the region’s local authorities, enabling them to procure additional home to school transport. This grant covered services provided up to the end of the 2020/21 Academic Year.

Following the ‘A Plan for Jobs’ announcement on 8 July 2021, the DfE also made available additional funding to scale up Apprenticeships, Traineeships and to support people looking for a job. This additional Adult Education Board (AEB) funding was part of the DfE’s COVID-19 Skills Recovery Package and wider Government plans to protect, support and create jobs and in turn, to boost the economy.

Further details relating to the above grants can be found in note 15 on page 78.

Acting as an agent, the Authority has also received Light Rail Grant funding of £4.5m from the DfT, supporting the Metro services during the prolonged period of reduced patronage on the tram system. The aim of this funding was to help protect services, allowing people travelling to hospitals, supermarkets or their place of work to get to their destination safely and quickly, while helping ensure there is enough space for them to observe social distancing guidelines.

Debt Management

All of the Authority's historic borrowing is at fixed rates so there is no significant impact as a result of the pandemic. In 2021/22 capital programme works that had been delayed during the initial phase of the pandemic, restarted. To unwind a proportion of its historic under-borrowed capital financing position and to mitigate against interest rate rises, the Authority accessed £200m of Public Works Loan Board (PWLB) borrowing that it had previously successfully bid for at the Government's Local Infrastructure Rate (Gilts + 60 basis points) and a further £10m of borrowing from the UK Infrastructure Bank at an equivalent rate. £125m of PWLB borrowing at the Certainty Rate (Gilts + 80 basis points) was also secured.

At 31 March 2022, the Authority had debt outstanding of £457m, well within the authorised limit for external debt of £697m. Debt outstanding is made up of the following figures:

	As at 1 April 2021	In Year Repaid	In Year Raised	As at 31 March 2022	Notes
	£m	£m	£m	£m	
PWLB	108.44	(1.44)	325.00	432.00	PWLB Local Infrastructure Rate Loans / UK Infrastructure Bank Loan
Barclays	10.00	0.00	0.00	10.00	No change
WM County Council (Transferred Debt)	5.59	(0.92)	0.00	4.67	Annual repayment of principal
UKIB	-		10.00	10.00	
Total Long-Term Borrowing	**124.03**	**(2.36)**	**335.00**	**456.67**	

Rates for medium to long term borrowing have risen during the year as central banks contend with the impact of rising inflation. The Authority will maintain a low risk treasury management approach seeking to maximise low interest loans when the opportunity arises.

Short Term Investments for Treasury Management Purposes

As a consequence of advanced receipt of grants and the unwinding of its historically under-borrowed position, short term deposits (investments of 365 days or less) increased during the year from £248m (2020/21) to £616m (2021/22). This is made up of the following figures:

2020/21 £m		2021/22 £m
112.60	Bank Deposits	189.16
135.70	Local Authorities / Housing Associations / UK Government Backed Deposits	427.00
248.30	**Total**	**616.16**

Cash flow management

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

Continual cash-flow forecasting is undertaken at a short-, medium- and long-term level to ensure that the Authority can plan ahead and continually monitor the financial environment assisted by sector specialists. This will ensure that there are sufficient lenders in place to borrow from in a timely and affordable manner when the need arises. The availability of funds to meet liabilities (liquidity) is ensured through the continuation of detailed cash planning and the maximisation of liquid products which also offer protection from loss. As a result of the pandemic, the Authority relied upon more secure investments with UK Government (Debt Management Office and other local authorities) for available cash, thereby reducing the exposure to security risk in the current market.

2. Organisational overview and external environment

The Authority came into being on 17 June 2016 by virtue of the West Midlands Combined Authority Order. At the same time, the West Midlands Integrated Transport Authority (WMITA) and the West Midlands Passenger Transport Executive (WMPTE) were dissolved. All of the functions, assets, liabilities and powers of WMITA and WMPTE were transferred to the Authority under the provisions of the 2016 Order.

The WMCA is a partnership between 18 local authorities and other bodies including Local Enterprise Partnerships, the West Midlands Police and Crime Commissioner and West Midlands Fire and Rescue Authority. We have seven constituent local authority members who make up the WMCA Board.

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

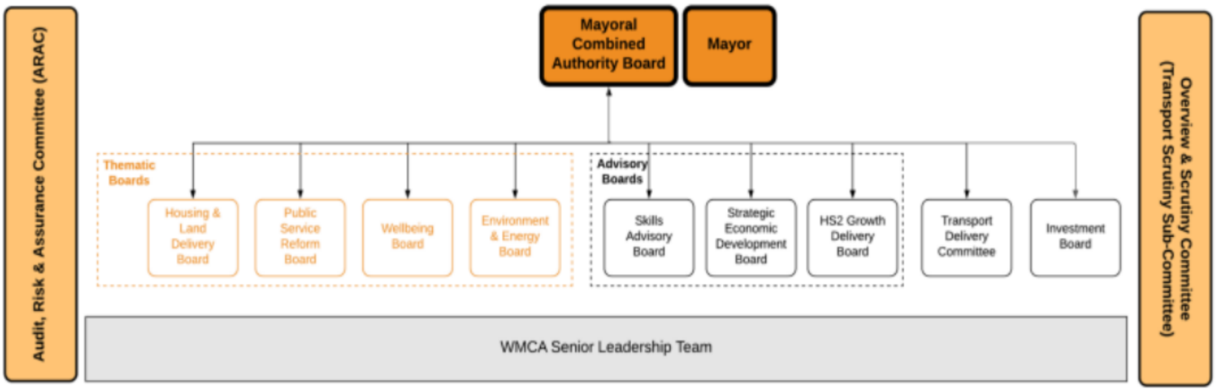
	Greater Birmingham and Solihull LEP	Black Country LEP	Coventry and Warwickshire LEP	Marches LEP
Constituent authority	■	■	■	
Non-constituent authority	□		□	□
LEP member only	▨			▨

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

Leadership of the Authority comes from the Mayor and the leaders of the seven constituent local authorities, which have full voting rights. The leadership also includes the chairs of the Local Enterprise Partnerships (LEPs) which are business-led organisations that help build relationships between businesses and local authorities. Other bodies which include the LEPs and ten local councils from across the wider West Midlands region, have reduced voting rights but play a crucial role at Board level, helping to inform policy and drive forward the Authority agenda. Full details of bodies that are members of the Authority are set out in the Annual Governance Statement on pages 36 to 44.

The 2021 West Midlands Mayoral Election was held on 6 May 2021 to elect the mayor of the West Midlands. Andy Street was re-elected and will continue to serve for the next three years as chair of the Authority and its Board.

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



The Group employed 974 people and the Authority employed 699 people as at 31 March 2022. Further analysis can be found in Table 1 on page 12.

WMCA's vision is to achieve 'A more prosperous and better connected West Midlands which is fairer, greener and healthier'.

WMCA's report titled 'Unlocking the potential of the West Midlands' sets out our aims and objectives for achieving our vision. This document helps us to:

- Set out how we will deliver on the region's priorities
- Guide our use of powers and money secured from central government
- Measure our progress against our priorities

The WMCA takes on a range of different roles to deliver on our shared regional ambitions. We always ensure that our activity builds on work at a local level, led by local authorities and other partners. In some areas we are responsible for delivering and commissioning services, such as the regional public transport system and the provision of adult skills. In other areas we convene and guide the work of partners, including developing economic strategy to support regional businesses and unlocking sites for housing and regeneration schemes. We also play an advocacy role, amplifying the voice of partners in the region to solve shared challenges and secure new resources or powers

We developed six aims following the Mayoral election in 2021. The WMCA also engaged extensively with our local authority partners, the Young Combined Authority, and other partners to understand our shared areas of focus. These six aims are based on evidence and data about the key challenges in the region, taken from reports such as the State of the Region. Overall, these six aims set out how the WMCA can help realise our vision.

1. Promote inclusive **economic growth in every corner of the region**
2. Ensure **everyone has the opportunity to benefit**
3. **Connect our communities** by delivering transport and unlocking housing and regeneration schemes
4. **Reduce carbon emissions** to net zero and enhance the environment
5. Secure **new powers and resources** from central government
6. **Develop our organisation** and our role as a good regional partner

Each aim is supported by a number of objectives, and key activities then set out how we will achieve those objectives. Our aims and objectives will be regularly reviewed, including a formal review every six months, to monitor progress. They are agreed and owned by the WMCA Board, chaired by the Mayor.

WMCA will achieve its vision through living our values which are central to how we work and interact with our wider partners and stakeholders.

Our core values and the underpinning behaviours are listed on page 37.

Regional Economic Context

The end of the financial year 2021/22 marked two years since the beginning of the global pandemic and five years since the process to leave the EU formally began. The combined effect of Brexit and COVID-19 has seen output fall in the West Midlands compared with pre-pandemic levels which has led to a fall in employment in important sectors in the region. For example, the West Midlands automotive sector has seen 61,211 jobs lost in the Midlands and the region is particularly exposed to the on-going impacts of Brexit due to its heavy dependence on exports to the EU - 55% of the West Midlands' £934m exports in manufacturing services and 62% of its £177m exports in Wholesale and Motor Trades' services head for the EU.

These so-called '2020 Shocks' have now been further compounded by a further global shock. Russia's invasion of Ukraine and the economic sanctions that have been placed on Russia have put global energy supplies at risk. Russia currently accounts for around 10% of the world's energy supply, including 17% of natural gas supplies and 12% of oil supply. The primary impact of the war in Ukraine has been soaring energy prices having an impact on both businesses and consumers in the West Midlands. A further rise in the price cap on energy is expected in October 2022. Both the war and lockdowns in China are making it hard to import things which is likely to push up prices. As a result of these factors, the Bank of England expects inflation to rise to almost 11% later this year. The Bank also predicts that whilst the UK economy has been recovering from the effects of Covid, the increased cost of living is expected to lead to slower economic growth overall.

In the West Midlands, the number of people on Universal Credit (UC) has soared from pre-pandemic levels, with some areas of Birmingham seeing claims more than double. The West Midlands also has one of the highest rates of fuel poverty in England. The rising cost of electricity and gas will further push families into poverty. In September 2021 around 18% of homes could not affordably heat their homes compared with the England average of 13%.

Despite these shocks, business confidence in the region has remained high. The West Midlands Business Confidence Index produced by the Institute of Chartered Accountants in England and Wales (ICAEW) has improved, making it the joint most confident region in the UK, alongside London. Domestic sales growth was faster than in any other UK nation or region in the 12 months to Q1 2022, with even stronger growth expected for the year ahead.

Labour market statistics also show more positive indicators. For the three months ending January 2022, the West Midlands Region employment rate (aged 16 – 64 years) was 75.7% - a record high. Since the three months ending October 2021, the employment rate saw an increase of 1.1 percentage points (pp); while there is an increase of 2.7pp when compared to the same period in the previous year – with the latter the largest increase across all regions. Furthermore, for the three months ending in January 2022, the West Midlands Region economic inactivity rate (aged 16 – 64 years) was a record low of 20.3% - a decrease of 1.3pp from previous quarter and a decrease of 1.6pp when compared to the previous year - both time comparisons were the largest decreases across all regions.

3. Governance

Governance arrangements during the year are set out in the Annual Governance Statement that can be found on pages 36 to 44.

4. Operational model

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

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

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

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

Table 1 below sets out the headcount (March 2022) and established full time equivalent (FTE) posts.

Table 1: WMCA, MML & WM5G Staffing Analysis — March 2022

No.	Headcount	FTEs
TfWM	357	329.7
Enabling Services	193	189.6
Other Services	139	136.9
Mayor's Office	10	9.6
WMCA Total	699	665.8
Midland Metro Limited	255	242.5
WM5G Limited	20	19.2
Group Total	974	927.5

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

5. Operational performance

Performance summary of the 2021/22 High Level Deliverables

The WMCA is committed to delivering positive change across the West Midlands region and this is evidenced through our High Level Deliverables (HLDs), which demonstrate to our stakeholders how we are progressing and what is being delivered.

In February 2021 the WMCA Board approved the HLDs for the 2021/22 financial year. HLDs are the output measures of the work that is being undertaken over the year and this section shows how we have performed and our key achievements.

There were 105 HLDs in total and 50 HLDs have been successfully completed in the 2021/22 financial year. A further 55 HLDs have completion dates post-March 2022. These have been absorbed into 2022/23 HLDs and will then be monitored over the following year.

Out of 105 HLDs, 95% have remained within acceptable tolerance levels (completed and on track).

2021/22 key achievements:

The WMCA has continued to work collaboratively with its partners to deliver positive outcomes for its residents even during challenging times bought on by the pandemic. Key achievements for the year are shown below for each portfolio area.

Strategy, Culture & Digital

- Led the organisation in the development and approval of the WMCA Aims and Objectives at WMCA Board in November 2021. Engaged in the delivery of the £5.3m Community Renewal Fund (CRF) programme, an integral part of the Government's plans to level up communities and support people most in need within our region. The CRF programme seeks to tackle local challenges – whether through building skills, supporting local businesses, supporting communities and places and providing employment support throughout the West Midlands.

- Eight locally led projects have been designed to offer people new skills and opportunities. These include skills training for those impacted by the economic fallout from the COVID-19 pandemic and projects to close gaps in support for key groups such as the over 50s and those with a history of offending.

  The projects awarded funding are:
  - £757k to Sandwell Council for the Black Country 50 plus partnership to plug gaps in support for residents aged 50 and over
  - £448k to the Greater Birmingham and Solihull Local Enterprise Partnership to set up the 'No Code' digital skills project aimed at 16-19-year-olds to create the tech entrepreneurs of the future
  - £903k to the 'Good Things Foundation for the Digital Future' project to get marginalised communities online, helping them to access jobs and opportunities
  - £509k to Walsall Council for the 'Works+' project to help get back into work those whose jobs were lost or put at risk through the pandemic
  - £586k to the Chance Heritage Trust to explore opportunities to regenerate the Chance Brothers Glassworks and Soho Foundry and Mint as economic and community hubs
  - £496k to the Wolverhampton Voluntary Sector Council for its Black Country Talent Match to provide mentoring, advice, skills training and support for local young people with a background of offending
  - £694k for Coventry City Council's Creative Growth and Cultural Tourism Recovery Programme
  - £706k for the Wolverhampton Voluntary Sector Council's project with 16 local organisations to provide support to people who face barriers to achieving full citizenship.

- Initiated the WM Cultural Sector Research which has provided a robust evidence base, a first for the local arts and cultural sector. Launched the Cultural Infrastructure Map which will strengthen the sectors potential in securing more investment and to reach more communities throughout our region. Led the Cultural & Creative Social Enterprise Pilot programme which has now come to an end: the programme was created to address challenges raised by the COVID-19 pandemic, particularly for smaller, diverse organisations operating within their home communities. The two selected participants received funding to develop their business ideas and operations, as well as training and mentoring support throughout their journey For more information on our achievements please visit: .https://beta.wmca.org.uk/what-we-do/culture-and-digital/culture/cultural-and-creative-social-enterprise-development-programme/

Economy & Innovation

- The 'Made Smarter West Midlands' programme was commissioned, supporting over 100 firms to digitise their processes and services, with a consequent increase in firm-level productivity.

- Collaborated with Create Central to support the growth of the Creative Services industries within the West Midlands. This resulted in securing a new partnership with the BBC and the relocation of the MasterChef production from London to Birmingham from 2024. It will be the first time one of the BBC's prominent shows will be produced outside of London in over 20 years. This partnership also resulted in the production of a new serial drama filmed within Birmingham.

- Led the development of the West Midlands Plan for Growth which pinpoints the potential for the region's economy to secure above average growth in clusters which will deliver more good jobs for local people.

Environment

- WMCA was recognised by the government backed, Climate Emergency UK as having the top scoring climate change plans in the country amongst combined authorities and the second best overall out of all local and combined authorities. The Climate Emergency UK exists to support all local and combined authorities by providing accessible information about best practice, and providing a network where local authorities, activists, non-government organisations (NGOs), business and local communities can work together.

- The Environment Team launched the Community Green Grants in January 2022, offering community groups a share of £725k to improve people’s access to quality green space across the West Midlands.

- Through our work on supporting and encouraging the region's tree planting efforts, there have now been over 88,000 new trees registered on the West Midlands Virtual Forest since January 2020.

Energy Capital

- Establishment of the SMART (Sustainable Market for Affordable Retrofit Technologies) Hub to channel retrofit funding and activity. The team have already led the region to attract funding in excess of £10m and supported partners in additional bids of more than £14m. This investment will be spent on the homes of vulnerable people; directly saving carbon and improving the living conditions of people in the region.

- Energy Capital have delivered several innovation projects spanning heat networks, retrofit and local energy system planning and operation. These have enabled the WMCA to identify the genuine opportunities and barriers to net zero in the region and places us in a strong position to overcome these with the support of Government and investors.

- The Energy Capital team are working on a Trailblazer Devolution Deal following the publication of the Levelling Up White Paper. On net zero, we are prioritising Local Area Energy Planning and Zoning and the establishment of a Retrofit Commissioning Framework to consolidate the funding streams that come from government.

Housing & Land

- In 2021, the Directorate oversaw the deployment of £100m+ to invest in housing, commercial and regeneration schemes in the region, heavily prioritising brownfield sites.

- Built new and strengthened existing relationships as the West Midlands’ first Public Land Taskforce was launched. The Directorate progressed a programme of industry-led taskforces on town centres, zero carbon, modular construction and commercial development, signed a strategic partnership with a major developer and progressed innovative partnership working with regional housing associations

- Led the transformation of 16 Summer Lane to support hybrid working and our wider WMCA property and estate management goals.

Inclusive communities

- Commenced delivery of the new West Midlands Race Equalities Taskforce, that will take action to improve equality of opportunity for all our communities, including appointing the Taskforce’s membership and developing an evidence base and forward plan for 2022/23 activity.

- Developed and published the WMCA Equality Scheme 2022-24 which sets out our vision, ambitions and proposed objectives for promoting equality, diversity and inclusion across the organisation and our work over the next three years.

- Delivered a varied portfolio of activity to embed equality, diversity and inclusion and citizen voice throughout the WMCA. This included establishing staff networks, delivering internal positive action initiatives, consulting with a wide range of community groups and supporting our Young Combined Authority.

Productivity and Skills

- This year saw an investment of over £150m of adult skills funding which resulted in training opportunities for 41,000 local people.

- The team responded quickly in combating the changing economic context, investing in new training to support key regional sectors, including construction, manufacturing, digital and business and professional services – with a 20% increase in job outcomes across our offer. We were pivotal in developing and delivering HGV driver training in response to emerging sector pressures – providing a blueprint for subsequent national programmes.

- We have delivered ground-breaking digital bootcamps to 2,000 local people, double what was achieved in the previous year, with 50% female and 50% from black and ethnic minority communities – helping over two-thirds of participants into employment.

PSR & Social Economy

- The WMCA Housing First pilot was the first in the country to meet its target, supporting over 500 people into accommodation with intensive wrap-around support.

- WMCA launched ‘Growing the social economy in the WMCA area’, the region’s plan for doubling the size of the social economy in 10 years, as promised to the Social Economy Taskforce in 2020. We are now working to deliver this plan as part of a cross-sector virtual team.

- Agreed, published and began delivery against a 13-point joint action plan with the Police and Crime Commissioner to collaboratively take action to make the West Midlands a safer place to live, work, learn and visit.

Transport for West Midlands

- There were successful bids for delivery programmes including £1.05bn City Region Sustainable Transport Settlement (CRSTS), £86.9m Bus Service Improvement Plan (BSIP), £30m for Zero Emission Bus Regional Area (ZEBRA) hydrogen bus and £17.5m for active travel to continue the authorities’ aspirations for a better connected and greener transport network which supports the aims and objectives of the WMCA.

- Delivery of existing projects including; phase 1 of the Sprint Network from Walsall to Solihull via Birmingham City Centre; the roll out of the Cycle Hire scheme and delivery of the new cycle infrastructure with Local Authorities; continued delivery of the Birmingham University and Perry Barr rail stations to improve connectivity to meet passenger demand and support wider regeneration; upgrade of Pool Meadow Bus Station to support the City of Culture in Coventry; continued delivery of the Metro extensions in Birmingham and Wolverhampton and many other smaller projects. Also, successful completion of the Commonwealth Games Statutory Transport Plan and agreement for the Local Transport Plan core strategy with a good response achieved from the consultation.

- Continued to support passengers across the public transport network through the fluctuations of COVID-19 restrictions by; managing our bus stations and maintaining services; trialling new customer services for pilot schemes such as e-scooters and Cycle Hire; implementing the Demand Responsive Travel trial in Coventry; extending the Future Transport Zone test bed and testing of innovative technologies; and opening a local road Highways ‘desk’ at National Highways Regional Operation Centre, thereby extending the reach and collaboration of the Road Traffic Control Centre (RTCC).

Wellness

- The ‘Thrive into Work’ programme has been recognised within the sector for achievements made in the Individual Placement Support (IPS) practice and has received funding to extend the programme to March 2023. A Coalition Panel of regional health and employment leads has been established to guide the programme and services, which continues to deliver excellent results. This year we have achieved:
  - 1,332 programme starts
  - 345 people achieved employment outcomes
  - Generated a further £2.84m of funding into the region to continue to deliver IPS services

- ‘Thrive at Work’ continues to drive forward the agenda for improved health and wellbeing options for employees at their place of work. This year we had:
    - 150 new organisations registered to ‘Thrive at Work’
    - 38 organisations used our Health Needs Assessment tool
    - 35 organisation achieved Foundation level accreditation
    - 15 organisations achieved Bronze accreditation
    - Celebrated the first organisation to achieve Silver accreditation

- Establishment of a Mental Health Commission, from the findings of the 2021/22 Health of the Region report, focusing on health inequalities in the wake of the pandemic. Expanded the WMCA’s influence in health inequalities and prevention space by working with the region’s Integrated Care System and local public health teams. This work has led to the coordination of remote diagnostic centres in the region, improved digital inclusion and, benefitting from their expertise, enabled us to take a ‘health in all policies’ approach to our devolved responsibilities. This has also paved the way for our trailblazing devolution asks around health to be negotiated with the Government.

Enabling Services
Our specialist and professional Enabling Services play a critical role in supporting the delivery of the WMCA Aims & Objectives, and work in a collaborative and integrated way across the business.

During 2021/22 the Business Transformation programme led to structural changes within Enabling Services to ensure the most effective and efficient ways of working were being implemented, thereby forming the Finance and Business Hub. A key outcome of this work was to build a business partner model, ensuring there was a strategic and specialist resource in all teams and that outcomes and requirements are agreed and updated on a regular basis. This inward look will continue throughout 2022/23.

The Enabling Services team comprises of 189.6 FTE across the following areas:

- **Communication –** Communications supports all of the directorates to engage with their audiences to help them achieve their objectives and celebrate success. We are proud to work on projects that have helped the people of the West Midlands feel more connected through our transport network; see their region come alive with vibrant new housing and regeneration projects; learn valuable skills that help them succeed; plant trees that add to the region’s virtual forest and put urban communities back in touch with nature; and support a healthier and happier workforce by sharing best practice on mental health. Throughout the year we have delivered projects with local, regional and national impact - hosting the region’s first international climate change conference alongside UK100; launching a strategy for tackling violence against women and girls on our transport network which was covered in national and broadcast media; and running two jobs fairs that saw nearly 2,500 people attend.

- **Digital & Data** – Processes have been re-analysed to enhance and create a closer working relationship with directorates and services across the business. The Technical Governance Panel was introduced to consider technical specification. This has enabled better planning and design work that has underpinned deliveries which include new back office systems such as Finance and HR, as well as modernisation of legacy systems and infrastructure.

- **Equalities and Inclusion** - Developed and published the WMCA Equality and Inclusion Scheme 2022-24, which sets out the WMCA’s vision, ambitions and proposed objectives for promoting equality, diversity and inclusion across the organisation and our work over the next three years. The team have also delivered a varied portfolio of activities to embed equality, diversity and wellbeing internally including establishing staff networks, delivering internal positive action development initiatives, embedding wellbeing and inclusion in key internal processes and introducing equality objectives in performance reviews. As a result, we have seen a positive shift in our workforce statistics.

- **Finance and Business Hub**

    - **Assurance and Appraisal** - The Programme Assurance & Appraisal team have led the implementation of the Single Assurance Framework (SAF) across WMCA Project Portfolios/Directorates which will enable WMCA to increase its project/programme management capability. The team leads key processes for ensuring accountability, probity, transparency and legal compliance, and for ensuring value for money is achieved across its investments.

    - **Business Planning –** Developed an Annual Business Plan for 2022/23, directly aligned with the corporate aims and objectives, creating a clear 'golden thread' from strategic vision to Individual Performance Management (IPM) goals and identification of both financial and workforce resources. A collaborative approach was taken with directorates to develop SMART High-Level Deliverables (HLDs) for the next financial year (2022/23).

    - **Commercial and Investment –** As well as overseeing £121m of Investment programme spend and £24m of commitments, the team supported Directorates delivering innovative new projects e.g., the Help 2 Own affordable housing initiative delivering its' first homes under a LLP Joint Venture structure. Two further Joint Venture structures were researched, structured and presented for approval in the year; Electric Vehicle Charging Area Transit station (EV CATS) and the West Midlands Co-Invest.

    - **Finance -** Helped lead and influence funding bids into Government resulting in over £1bn of new funding being secured for WMCA to deliver against its Aims and Objectives.

    - **HR –** There has been a full review of the HR team structure which gained approval from the Strategic Leadership Team (SLT), resulting in an approved strategy to re-design the service provided by the HR team to the organisation. This included the creation and implementation of a HR Service Centre, aimed at first line employee support and response to queries, and a dedicated team of strategic HR Business Partners working closely with Directorates to fully embed themselves within the teams they support.

    - **Performance –** To improve our reporting capability, the team worked with colleagues from Digital & Data to develop a new 'single source of truth' reporting platform to support data driven decision-making and the journey to a performance management culture.

    - **Procurement –** Achieved SLT approval in January 2022 to strengthen the team, including newly created positions of Procurement Business Partners. The roles will provide increased in-house capacity and capability to meet the Authority's growing demands, and further develop our service offer to the organisation.

    - **Risk –** During 2021/22 a Strategic Risk Management Framework was developed and approved by Audit, Risk and Assurance Committee (ARAC), together with all associated tools and templates. A series of training sessions then provided support for teams and risk owners to use the framework and to identify, monitor, manage and review risks.

- **Learning and Organisational development –** Led the organisation in the introduction of the Clearview platform, helping staff to understand how their work links with and supports the delivery of the strategic aims and objectives of the organisation through Individual Performance Management goals.

- **Legal and Governance** – During 2021/22, the team strengthened its in-house capability and capacity to enable substantially more legal work to be carried out internally, achieving better value for money.

- **Strategic Facilities Management and Assets** – Led the business continuity during the pandemic through the delivery of a working environment that is COVID-19 compliant and supports the re-imagined hybrid ways of working at our Summer Lane Headquarters.

6. Financial performance

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

Revenue Performance

Table 2 set out below shows the overall consolidated revenue position for the Authority compared with the budget approved by the Authority Board in February 2021, and is set out in the same way as the regular financial reports that are considered by the Authority Board. This means that the table excludes statutory accounting and funding adjustments required by the Code of Practice on Local Authority Accounting, setting out the outturn position in the same way that the Authority's finances are planned and managed throughout the year.

Table 2: West Midlands Combined Authority Revenue Outturn 2021/22

£000's	**Year to Date**			**Reconciliation to Expenditure and Funding Analysis (note 6)**							
	Actual	**Budget**	**Variance**	Transport Services	Other Services	Invest. Prog.	Mayor's Office	Mayoral Elections	Finan-cing	Grant income	Total
Transport Levy	114,720	114,720	0							114,720	114,720
Commonwealth Games	5,279	5,423	(144)	5,279							5,279
Revenue Grants & Other Income	20,197	9,348	10,849		19,437		760				20,197
Adult Education Funding	125,169	142,698	(17,529)		125,169						125,169
Share of Business Rates	9,000	9,000	0							9,000	9,000
Constituent Membership	4,644	4,644	0							4,644	4,644
Non Constituent Members	425	425	0							425	425
Investment Programme	36,500	36,500	0							36,500	36,500
Investment Income	976	898	78						976		976
Use of Reserves	9,947	9,495	452	5,630	1,199			3,118			9,947
Total Funding	**326,857**	**333,151**	**(6,294)**	**10,909**	**145,805**	**0**	**760**	**3,118**	**976**	**165,289**	**326,857**
Transport for West Midlands	110,400	119,415	9,015	110,400							110,400
Commonwealth Games	5,279	5,423	144	5,279							5,279
Economy & Innovation	7,082	3,381	(3,701)		7,082						7,082
Environment, Energy & HS2	1,116	598	(518)		1,116						1,116
Housing and Land	1,242	1,400	158		1,242						1,242
Wellbeing	1,357	1,502	145		1,357						1,357
PSR & Social Economy	1,566	1,563	(3)		1,566						1,566
Culture and Digital	5,803	174	(5,629)		5,803						5,803
Productivity & Skills	131,446	147,598	16,152		131,446						131,446
Inclusive Communities	67	68	1		67						67
Business Support	2,729	2,064	(665)		2,729						2,729
Investment Programme	45,683	45,605	(78)			45,683					45,683
Mayoral Office	760	760	0				760				760
Mayoral Election	3,118	3,600	482					3,118			3,118
Total Expenditure	**317,648**	**333,151**	**15,503**	**115,679**	**152,408**	**45,683**	**760**	**3,118**	**0**	**0**	**317,648**
Net Income (before reserves)	**9,209**	**0**	**9,209**	**(104,770)**	**(6,603)**	**(45,683)**	**0**	**0**	**976**	**165,289**	**9,209**
Earmarked reserve (Support for Bus Network)	**6,350**	**0**	**(6,350)**	6,350							6,350
Earmarked reserve (2022/23 Transport Budget Support)	**3,600**	**0**	**(3,600)**	3,600							3,600
Net Expenditure (after reserves)	**(741)**	**0**	**741**	**(114,720)**	**(6,603)**	**(45,683)**	**0**	**0**	**976**	**165,289**	**(741)**

Transport	0	0	0
Wider Services	(741)	0	(741)
Mayoral Office	0	0	0
Total Surplus / (Deficit)	**(741)**	**0**	**(741)**

The table 2 on page 18 shows the overall consolidated revenue position for the WMCA. Total expenditure of £317.6m, compares favourably with the budgeted expenditure of £333.1m and is funded by the Transport Levy, government grants, investment programme, business rates growth, contributions from members, reserves and other income streams.

This provides a net income position at the end of March of £9.2m. To support the 2022/23 budget, £9.9m has been transferred to reserves, an increase of £6.3m from the final forecast out-turn for the year. The resulting net expenditure of £741k for the financial year is within the Wider Services budget.

Transport represents a total favourable position of £9.950m compared with budget, comprising £9.015m as shown above and £0.935m planned use of reserves. This is largely due to Concession savings during the pandemic as a result of reduced service provision by operators, lower patronage and no fare increases. Further savings have been achieved due to the revision of the Accessible Transport contract, which included bringing the Customer Service team in-house. Additionally, increased Digital Advertising revenue, current savings within the Subsidised Bus budget and ongoing staffing variations across various areas have also contributed towards the overall favourable variance. The total favourable position of £9.950m has been transferred to earmarked reserves.

The net savings have been utilised to create two reserves, one supporting the Bus Network and the second mitigating against potential risks relating to the Metro and Rail programmes in future years.

Within the Wider Services budget, the adverse variance of £0.741m is due to timing of the planned use of reserves, partly offset by additional grant income within the Wellbeing and Productivity & Skills Portfolios, savings relating to staffing variations and the re-profiling of activity across several Portfolios.

The adverse variance of £17.5m on Adult Education Budget reflects lower learner numbers compared with the original budget, owing to the knock on effect of the pandemic and lower take up on Level 3 skills than anticipated in the budget. The adverse variance on Culture and Digital of £5.6m reflects expenditure on the Business and Tourism Programme for the Commonwealth Games which was funded from Government grant. The budget and funding for the programme was agreed after the original budget was set in February 2021.

Capital Programme Performance

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

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

The Authority spent £387.6m on capital projects in 2021/22 (see note 31) which was £206.9m less than the budget of £594.5m and primarily reflects the re-phasing of activities in relation to the various Metro extension schemes. Furthermore, grants allocated to Local Authorities through the Investment Programme and Commonwealth Games schemes are taking place later than originally planned. The variances at the end of March 2022 were spread across all programmes, but primarily within the WMCA Investment Programme (£88.6m), the Investment Programme Grants to Local Authorities (£35m) and the Commonwealth Games (£32.7m). The impact of the COVID-19 pandemic has had a prolonged and significant impact on progression of schemes across the year due to resource shortage in construction and within the Local Authorities. In the main, delivery schedules are not anticipated to be impacted by the rephasing of expenditure plans into 2022/23.

Major items of capital spend in the year were:

- Metro Wednesbury to Brierley Hill Extension £58.0m
- Metro Birmingham Eastside Extension £46.6m
- University Station £30.1m
- SPRINT A45 Birmingham-Airport-Solihull £29.6m
- Alexander Stadium Redevelopment £25.0m
- Coventry Station Masterplan £16.7m
- SPRINT A34 Walsall to Birmingham £16.1m
- Perry Barr Rail Station £15.6m
- Coventry Friargate Business District Regeneration £14.5m
- Metro Edgbaston Extension £12.9m
- Coventry Electric Bus City £11.4m

The capital programme spending of £387.6m was financed in the following way:

Table 3: Financing of Capital Expenditure 2021/22

	£ million
Government grants	231.3
Borrowing	111.2
District/Local Enterprise Partnership (LEP) grants and contributions	9.4
Third party contributions	25.8
Gainshare contribution	9.9
Total	**387.6**

7. Strategy and resource allocation

Revenue Budget 2022/2023

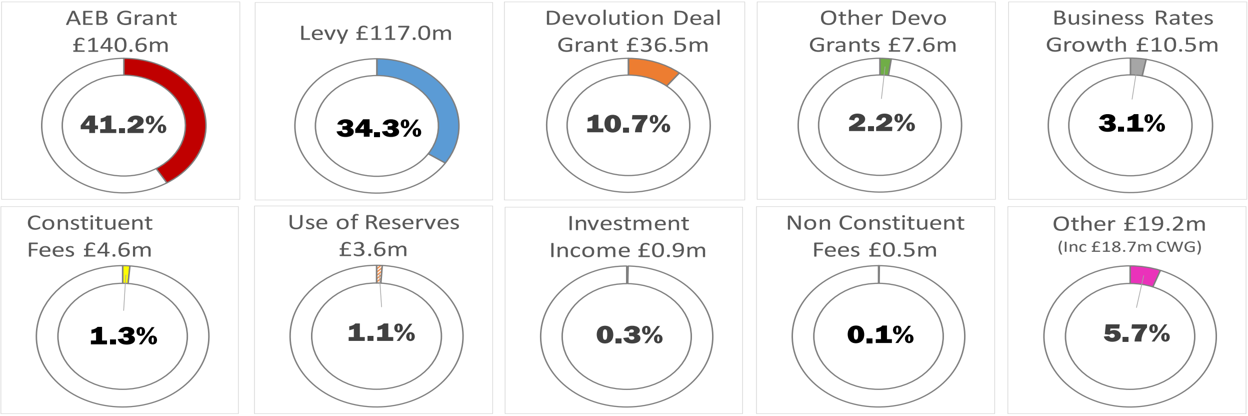
The tables on page 21 show how the £341m revenue income is sourced and where it gets allocated for expenditure. 2022/23 Transport expenditure is to be funded by £117.0m of Transport Levy, which WMCA receives from its constituent members, £4.5m of Business Rates and £3.6m of WMCA's existing Reserves. The Transport Levy has been increased by 2% (£2.3m) from 2021/22, having previously remained flat for five years. Also, within Transport, WMCA will receive a grant of £18.7m from the 2022 Commonwealth Games Organising Committee to support the delivery of the Games.

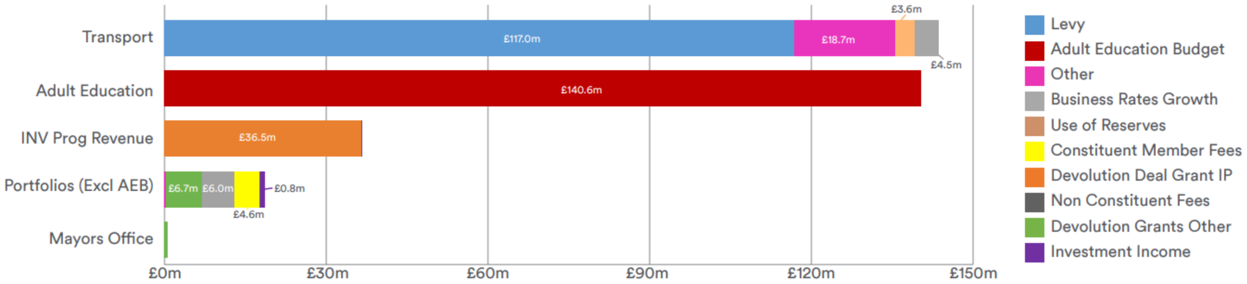
2022/23 Non-Transport expenditure includes WMCA's devolved funding in order to deliver Adult Education throughout the region, as part of our Productivity & Skills portfolio. The remaining expenditure in the area includes WMCA's Economy & Innovation, Culture & Digital, Wellbeing, PSR & Social Economy, Environment and Inclusive Communities portfolios, as well as revenue costs of delivering our Housing & Land Capital Programme.

The Investment Programme and Mayor's Office Budgets are in line with prior years and include the receipt of Devolution Deal grants. A gainshare grant of £36.5m will be used to deliver the Capital projects within the Investment Programme, whilst a £0.8m Mayoral Capacity Funding grant supports the operation of the Mayoral Office.

WMCA has committed to working with Constituent Authorities throughout 2022 to develop a longer-term, sustainable budget and plan, building on the work to develop the 2022/23 Aims and Objectives.

Financial Position
2022 / 2023 Revenue Budget Analysis

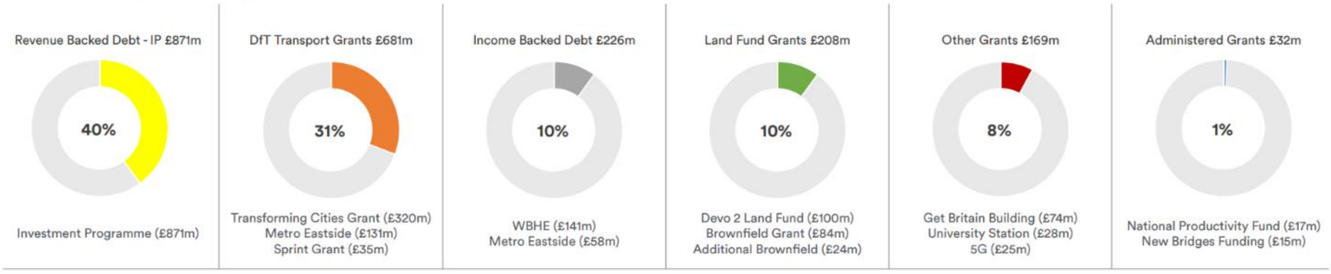


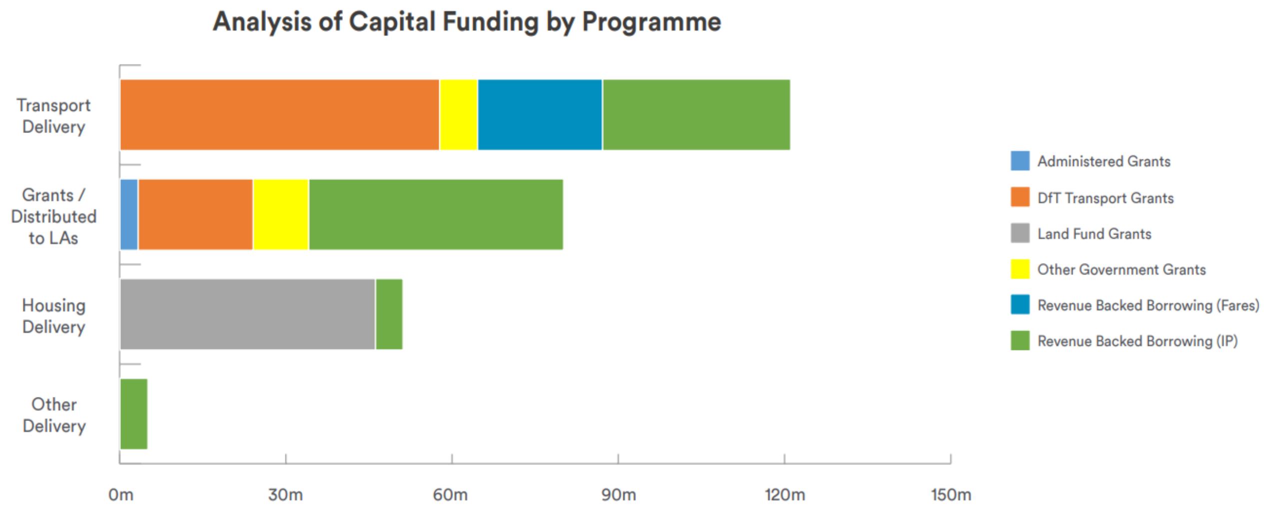


Capital Budget 2022/2023

The WMCA Capital Programme is summarised in the tables below highlighting the current planned capital investment between 2021/22 and 2025/26. This position represents the latest 2021/22 reforecast. The final 2022/23 Capital Budget will be presented to WMCA Board at the earliest opportunity in 2022/23 following confirmation of the 2021/22 outturn position. It should also be noted that this view does not include any allocation of the recently awarded City Regional Sustainable Transport Settlement (CRSTS) funding of £1.05bn.

Financial Position
2022/23 Capital Programme





Medium-Term Financial Plan (MTFP)

The Authority currently plans its finances over a Medium-Term Financial Plan (MTFP), covering a 5-year rolling period and includes all known and quantifiable financial pressures that it faces.

The MTFP incorporates a broad estimate of the financial impact for the following risks and sensitivities:

- Demographic growth and demand pressures, specifically where transport payments and services are directly affected by patronage demands;
- Ongoing impact of COVID-19 and associated recovery of the region;
- Inflationary rises;
- Business Rates Retention Scheme and the achievement of growth targets.

The current MTFP assumes a cash flat funding requirement from WMCA's Constituent Authorities, both in terms of the Transport for West Midlands levy and their contributions to the Authority's Wider Services Budget up to and including 2026/27. Whilst this currently represents the planning assumption, it is acknowledged that this creates a potential financial risk, specifically regarding inflationary increases, pay and legislative changes and demand in terms of patronage. The impact of these risks is kept under continuous review and discussion with WMCA's Constituent Authorities.

Assumptions have been made around pay and price rises and the Consumer Prices Index, along with changes in patronage and fares. Any variation on this for 2022/23 will need to be managed within the available resources. These clearly may change significantly over the period covered by the MTFP, meaning a cash flat funding requirement may not be achievable without changes to policy.

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

Table 4: Medium-Term Financial Plan 2022/23 to 2026/27

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Transport Levy	117.0	117.0	117.0	117.0	117.0
Revenue Grants & Other Income	185.1	182.3	180.9	180.0	180.1
Business Rates Share	10.5	12.0	13.5	15.0	16.5
Constituent Membership	4.6	4.6	4.6	4.6	4.6
Non-Constituent Members	0.5	0.4	0.4	0.4	0.4
Investment Income	0.9	0.9	0.9	0.9	0.9
Mayoral Precept	-	-	-	7.9	7.9
Commonwealth Games	18.7	-	-	-	-
Use of Reserves	3.6	-	-	-	-
Total Funding	**340.9**	**317.3**	**317.4**	**325.9**	**327.5**
Transport for West Midlands	125.1	131.1	135.8	145.0	147.6
Commonwealth Games	18.7	-	-	-	-
Portfolio and Enabling Services Budgets	159.7	160.7	160.6	164.6	162.4
Investment Programme	36.6	48.6	50.1	58.6	60.1
Mayoral Office	0.8	-	0.1	0.9	0.9
Mayoral Election	-	-	4.5	1.5	1.5
Total Expenditure	**340.9**	**340.4**	**351.1**	**370.6**	**372.5**
Net Expenditure	**-**	**(23.1)**	**(33.7)**	**(44.7)**	**(45.0)**

The MTFP set out in the table above was noted by the Authority Board in January 2022. A balanced budget position for 2022/23 was approved. However, there currently remains a gap in available funding to support expenditure plans ranging from £23.1m in 2023/24 rising to £45.0m in 2026/27.

It is increasingly acknowledged that Mayoral Combined Authorities do not have an adequate sustainable funding base and therefore need to bid for many of their resources. This makes longer term financial planning more difficult, whilst the continued delay to Her Majesty's Government's Comprehensive Spending Review (CSR) has added to the uncertainty and means it is harder for WMCA to respond to changing priorities. The Constituent Authorities that make up Mayoral Combined Authorities also have a financial model that is subject to ongoing review. It is therefore clear that more stable and long-term funding is needed to enable Mayoral Combined Authorities to deliver their priorities.

WMCA will continue to review existing established expenditure budgets to drive efficiency savings in the medium term and is continuing to lobby Her Majesty's Government alongside other Mayoral Combined Authorities for sustainable funding to be included in the Government's spending plans, including funding future Mayoral Elections.

The process to refresh the MTFP for the period 2023/24 to 2026/27 has already commenced, to include the latest position on additional spending requirements and changes in income.

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

- **Current Economic Climate** – the Consumer Prices Index rose by 7.9% in the 12 months to May 2022 and is currently expected to rise to almost 11% in October 2022. WMCA's revenue and capital budgets are anticipated to be impacted by inflation and global supply chain pressures. These risks are being actively managed as part of the Strategic Risk Management Framework. As a result of recent increases to the Bank Rate, interest rates are expected to increase throughout 2022/23 reflecting current inflation levels. This poses a risk to WMCA on the cost of any borrowing required to support delivery of Capital Infrastructure, but also should allow WMCA to generate better returns on its investments.

- **Levelling Up Agenda** – The Department for Levelling Up, Housing and Communities published its Levelling Up White Paper in February 2022. As part of this, WMCA and Greater Manchester Combined Authority were invited to apply for 'Trailblazer Devolution Deals' which would see both regions given far greater political powers and financial freedoms. Detailed negotiations will take place between WMCA and Her Majesty's Government over the coming months.

- **COVID-19** – the impact of the COVID-19 crisis on WMCA's financial position is being assessed, both in terms of the negative impact on revenue income and the increased risk of cost escalation in delivering its approved Capital Programme and Investment Programme.

- **Capital Financing Costs** – WMCA opted to change the way it calculates Minimum Revenue Provision (MRP) in the 2017/18 financial year. The change was approved by WMCA Board in November 2017 and enabled a MRP 'holiday' to be taken. This 'holiday' period will end during the 2023/24 financial year, at which point MRP charges will be re-introduced. Any changes in Capital Financing requirements and timings will impact the MRP charge incurred in each financial year.

- **Pensions costs** – WMCA received its triennial actuarial valuation which sets the contributions for the three years beginning 2019/20. It agreed to prepay these in order to benefit from a discount, however an updated actuarial valuation is expected, and may require WMCA to make increased annual contributions, or a lump sum contribution to offset any funding shortfall in the pension scheme.

- **Commonwealth Games** – the 2022 Commonwealth Games in Birmingham will be the biggest sporting event to happen in England since the London Olympics in 2012. Between 500,000 and one million people are expected to visit Birmingham over the 11-day sporting event in July-August 2022, and the Games are anticipated to generate a boost of more than half a billion pounds to the West Midlands region. WMCA will play a key role in delivering a robust public transport network during the Games, as well as supporting West Midlands Growth Company who are delivering a Business and Tourism programme in order to leverage economic benefits across the region.

- **Mayor's budget and precept** – All Metropolitan Mayors have powers to raise a Mayoral Precept; effectively an incremental charge on top of existing Council Tax bills. Prior to his re-election in May 2021, the Mayor made a commitment in his manifesto not to set a Mayoral council tax precept for the whole of his 2021-24 term as Mayor.

- **WMCA's Investment Programme** – The Investment Programme aims to deliver an ambitious programme of infrastructure and other measures that are aimed at driving inclusive economic growth in the West Midlands region. Funding for the programme to date is predominantly though Gainshare Grant and Share of Business Rates, with other options for raising the required funding under continual review. Until such time that those additional revenues are realised, the programme will remain within the affordable limit as agreed by WMCA Board.

- **Borrowing Powers** – the amendment to statutory regulations that extended WMCA's ability to borrow for non-transport capital schemes was confirmed in May 2018, subject to the Authority agreeing to operate within an agreed borrowing cap set by HM Treasury. The final year of the three-year cap was 2020/21 (£1,042.0m), however this was rolled forward for 2021/22. WMCA is currently in dialogue with HM Treasury about the value of the borrowing cap which will be effective from 2022/23 onwards.

- **Business Rates Supplement** – WMCA has the same legal powers as Local Authorities to raise a business rate supplement, subject to it gaining consent from businesses affected by the charge. Recognising the regional impacts such a charge may have on local businesses, the prospect to implement a Business Rates Supplement was placed on hold by WMCA Board in July 2019.

- **Midland Metro Limited** – MML is expected to generate profits in the longer term, which will be channelled back into the network for the benefit of passengers and the local economy. Patronage falls during the COVID-19 outbreak and two service shutdowns in June 2021 and March 2022 have significantly increased the risk of this investment. This risk is under constant review, both in respect of ongoing operational costs, but also the ability of MML to generate the required revenues in order to secure borrowing for future investment in the network.

- **Commercial & Residential Investment Funds** – WMCA's Investment Funds support the acceleration of commercial / residential property developments within the West Midlands area where traditional lending is not readily available.

  These are revolving loan funds that aim to underpin the region's long-term growth and stability and are open to developers seeking finance of £1m to £20m. The fund commits repayable loan capital to eligible commercial, light industrial and residential regeneration opportunities at commercial rates of interest. The maximum value of commitments WMCA will allow against the total fund is £210m.

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

- **General Fund balances –** although the appropriate level of general fund reserves is a matter of judgement by the Finance Director (Section 151 Officer), the generally accepted practice is for general fund reserves to be between 3% and 5% of expenditure. The proposed balance is below this recommended level and consideration should be given to increase the level of General Balances to ensure risk can be managed within WMCA without creating volatility on Constituent Authority contributions. It is noted however that the Authority does hold Earmarked Reserves, which gives the Finance Director (Section 151 Officer) comfort that the General Fund balance is sufficient in the short term.

8. Risks and opportunities

Risks

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

The Authority's Strategic Risk Register (SRR) supports the identification and management of the risks faced by the organisation in achieving its organisational or strategic objectives. The SRR captures only those high-level risks which are of such significance as to require oversight and assurance by the Strategic Leadership Team (SLT). Operational Risk Registers are in place within directorates, and review meetings take place across all the Authority's activities enabling full visibility of key risks with the potential to impact on the organisation. The Risk Management Framework includes a process that allows for risks to be escalated from the Operational Risk Registers, ultimately to the SRR.

Regular meetings are in place with the management team of each business area to monitor the status of risks and to ascertain the level of risk exposure in each of these areas to determine the assurance conclusions. Additionally, the SRR is reviewed by SLT on a quarterly basis to ensure key risks are captured on the SRR and effective mitigation measures are in place to reduce or eliminate the resulting effects. Risk Management, Performance Management and Business Planning activity is being brought together to provide a strong evidence base to substantiate the risk assumptions and improve decision making.

Progress of the 2021/22 Annual Business Plan was monitored on a monthly basis by internal management teams with key risks impacting on its delivery being escalated to the directorate operational risk registers. In addition, delivery against performance of the High-Level Deliverables within the Annual Plan was reported monthly to SLT and quarterly to the Authority Board.

We have reviewed and assessed the economic, financial, commercial and contractual risks associated with the conflict in Ukraine. Any emerging financial pressures, particularly in relation to capital delivery, and operational costs relating to pay, prices and utilities will be closely monitored and reported through the Authority financial monitoring report. We can confirm that the Authority has no investments or contractual ties to any Russian based companies or direct supply chain connections. Likewise, our pension fund administrators, Hymans Robertson LLP, have confirmed that some Local Government Pension Scheme (LGPS) Funds had direct Russian investment exposure which may have been written down, but these are typically very small proportions (<0.2%) of a Fund’s overall assets.

In addition, following the National Cyber-Security Centre’s announcement of a heightened cyber threat to the UK, and encouragement to organisations to bolster their online defences, we are revising the SRR to reflect both this advice and our response.

There are currently nine risks rated Very High even after mitigants have been applied, though seven of these risks have remained static for some time, as follows:

- Financial assumptions for Investment Programme
- External factors
- Data protection and protective security
- Stakeholder and political relations
- Capacity and capability
- Project / Programme Appraisal and Assurance – ensuring compliance to national devolution commitments
- Longer term economic impact of COVID-19 on public transport provision
- Commerciality
- Financial resilience of WMCA to absorb fiscal shocks

Those risks with a residual high-risk score are explained in further detail below.

Financial assumptions for Investment Programme	• If the Authority is not able to realise the supplementary (or alternative, equivalent) income streams envisaged in the 2016 Devolution deal the Investment programme may not be delivered as originally intended.
External factors	• External challenges or changes in policy from global or government / political or financial change are not factored into the Authority plans, which could make delivery ambitions more difficult to achieve.
Data protection and protective security	• 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. • 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. • A data breach event from outsourced services occurring at a partner organisation with whom we have contracted to process data on our behalf.

Stakeholder and political relations	• As the Authority continues to expand and absorb new remits and accountabilities that WMCA's stakeholder and 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 the government to WMCA under the Government's 'levelling up' proposals and continued uncertainty on when and how this will be achieved will increase pressures on financial, operational governance and scrutiny functions. There may be challenges in maintaining the relationships across the region which helped to deliver the WMCA.
Capacity and capability	• 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 known capacity issues in 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.
Longer term economic impact of COVID-19 on bus service provision	• The budget for the provision of subsidised bus services within the current policy framework is forecast to be under significant pressure. Commercial bus operators are currently being supported by 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.
Commerciality	• Having chosen to use commercial company delivery models in some areas, challenging economic conditions and/or material loss of revenue from investments may result in: a) commercial models not being able to deliver expected benefits and commercial revenue targets and/or b) the structure exposing the Authority to greater financial risk if the delivery model is unsuccessful.
Project/Programme Appraisal and Assurance – ensuring compliance to national devolution commitments	• New project and programme proposals are not effectively appraised or assured in line with the Devolution Deal commitments made to Central Government. Business Transformation has resulted in changes in support for Single Assurance Framework (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. The risk may be exacerbated by new funding streams in response to the Covid pandemic.
Financial resilience of WMCA to absorb fiscal shocks	• The revenue budget in recent years has been supported by reserves and other one-off resources. The nature of this funding limits the degree to which WMCA can quickly direct funding towards specific priorities (or changing priorities) and also reduces the extent to which WMCA has the financial capacity to effectively deal with fiscal shocks; examples being the recent pandemic and related / unrelated escalations in revenue and capital initiatives.

Opportunities

The Levelling Up White Paper, published by Government in February 2022, establishes the West Midlands as a national trailblazer for the transfer of ‘London-style’ powers to the regions and into the hands of the people who know their areas best. This represents the commitment from Government to negotiate a third, trailblazing, devolution deal with the West Midlands and enables WMCA to apply for more powers and funding, ensuring devolution goes hand-in-hand with levelling up. This will include WMCA given control over its allocation of the new UK Shared Prosperity Fund to improve education and training opportunities, launched in April 2022.

As part of the Spending review in October 2021, the Government confirmed funding of £560m for the new ‘Multiply’ scheme aimed at improving half a million adults’ numeracy. All mayoral combined authorities are to be allocated funding for providers to run the free courses from the UK Shared Prosperity Fund, with this new initiative to complement existing Adult Education Board (AEB) programmes.

The Government has awarded funding to WMCA of more than £1 billion over the next five years from the City Region Sustainable Transport Settlement (CRSTS), a new consolidated fund for local transport investment. The programme of works to be funded by CRSTS is designed to meet the ambitious vision set out in our recently refreshed Local Transport Plan Green Paper for a greener, more active, fairer and economically successful West Midlands, whilst taking strides towards our 2041 carbon neutral target as part of the #WM2041 initiative.

WMCA is working with the Department for Levelling Up, Housing and Communities (DLUCH) to achieve a Simplified Funding Landscape. This would enable WMCA to have access to long-term, single cross-departmental funding pots which are free of onerous conditions, where investment decisions are ultimately taken by local leaders. Organisational effort and resource could then be directed towards delivery (rather than competitive bidding) and for WMCA to be held to account by Government through single points of contact, consistent Monitoring & Evaluation / reporting arrangements; all to be supplemented by adequately robust oversight and scrutiny frameworks.

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

Opportunities to ensure optimum financial stability and security include Treasury Management activity, maximising the current and forecast market opportunities for investment income, reviewing the borrowing strategy and making best use of capital financing. This includes making optimum use of access to the Public Works Loans Board, the UK Infrastructure Bank and other financial institutions.

During 2021/22 a programme of Business Transformation led to structural changes within Enabling Services to ensure the most effective and efficient ways of working were being implemented. A key outcome of this work was to build a business partner model, ensuring there was strategic and specialist resource in all teams and that outcomes and requirements are agreed and updated on a regular basis. This inward look will continue throughout 2022/23.

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

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

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

The third subsidiary is West Midlands Development Capital Limited (WMDC) which WMCA employs as the fund manager for Commercial and Residential Investment Funds which support the acceleration of commercial / residential property developments within the West Midlands area where traditional lending is not readily available. Being the smallest of the subsidiaries, WMDC is not consolidated in the Group accounts.

9. Midland Metro Limited

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

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

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

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

10. WM5G Limited

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

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

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

11. Basis of preparation

The Authority’s Statement of Accounts have been prepared under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and are for the full year from 1 April 2021 to 31 March 2022.
The Group Accounts comprise of:

- i) The Authority.
- ii) Midland Metro Limited
- iii) WM5G Limited

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

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

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

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

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

12. Directors and Senior Officers

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

Directors/Senior Officers	Title	Appointment/Resignation
Deborah Cadman	Chief Executive	Resigned – 13 June 2021
Laura Shoaf	Chief Executive	Appointed – 14 June 2021
Ed Cox	Executive Director of Strategy, Integration and Net Zero	
Gareth Bradford	Executive Director of Housing, Property and Regeneration	
Julia Goldsworthy	Director of Strategy	Resigned – 31 October 2021
Julie Nugent	Executive Director of Economic Delivery, Skills and Communities	
Laura Shoaf	Managing Director, Transport for West Midlands	Resigned – 14 June 2021
Anne Shaw	Executive Director, Transport for West Midlands	Appointed – 12 July 2021
Linda Horne	Executive Director of Finance & Business Hub	
Siobhan Bassford	Operational Director of Strategic Communications	Appointed – 27 April 2021
Tim Martin	Director of Law and Governance, Clerk and Monitoring Officer	Resigned – 31 May 2021
Satish Mistry	Interim Director of Law and Governance	Appointed – 27 April 2021

Laura Shoaf was appointed as the interim Chief Executive in June 2021, following the departure of Deborah Cadman, and subsequently appointed as the permanent Chief Executive in November 2021.

Anne Shaw was appointed as the interim Managing Director for Transport for West Midlands in July 2021, followed by her permanent appointment in January 2022.

During 2021/2022, we reviewed the structure of the organisation to position the WMCA to best achieve our ambitions. This has resulted in a reorganisation of the Directorates and some changes in job titles at the Strategic Leadership Team level. The new roles are effective from 1 May 2022 and the new job titles are also reflected in the list of directors and senior officers on page 80.

13. Auditors

Grant Thornton (UK) LLP are the auditors of the Authority for 2021/22. Their appointment was made by the Public Sector Audit Appointments (PSAA) under the provisions of the Local Audit and Accountability Act 2014 and regulation 3 of the Local Audit (Appointing Person) Regulations 2015.

On behalf of the West Midlands Combined Authority Board

Laura Shoaf
Chief Executive
Date:

1. The Authority's Responsibilities

The Authority is required to:

(i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. These responsibilities are discharged through the role of the Responsible Finance Officer that is the Executive Director of Finance & Business Hub.

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

(iii) Approve the Statement of Accounts.

2. The Responsible Finance Officer's Responsibilities

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

In preparing this Statement of Accounts, the Responsible Finance Officer has:
- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The Responsible Finance Officer has also:
- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the accounts

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31 March 2022.

Linda Horne
Executive Director of Finance & Business Hub and Responsible Finance Officer
Date:

4. Approval of the Accounts

I certify that the audited Statement of Accounts covering the period 1 April 2021 to 31 March 2022 were approved by a resolution of the Audit, Risk and Assurance Committee on 24 January 2023.

Mark Smith
Chair of the Audit, Risk and Assurance Committee
Date:

Scope of Responsibility

This Annual Governance Statement (AGS) reflects the activities of the Authority for the year ending 31 March 2022 and up to the date of approval of this Statement and the Statement of Accounts.

West Midlands Combined Authority (WMCA) was established on 17 June 2016 by the West Midlands Combined Authority Order 2016 and is made up of seven district councils, constituent and non-constituent members and three Local Enterprise Partnerships (LEPs), observers and a co-opted member.

The Mayor is the Chair of the WMCA and having been re-elected on 6 May 2021, will remain in office until May 2024. The Authority's Constituent member authorities consist of the seven district councils across the region:

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

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

Non-constituent authorities

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

LEP members

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

There are four Observers of the Authority. These are:

- The Marches LEP
- Warwick District Council
- West Midlands Fire and Rescue Authority
- West Midlands Police and Crime Commissioner

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

- Trade Union Congress (TUC)

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

No.	Company Name	Stake	Accounting Treatment
a.	West Midlands Rail Limited	50%	Associate
b.	West Midlands Development Capital Limited	100%	Subsidiary
c.	Midland Metro Limited	100%	Subsidiary
d.	West Midlands Growth Company Limited	5.3%	Investment
e.	WM5G Limited	100%	Subsidiary
f.	HTO1 LLP	44%	Joint venture
g.	HTO2 LLP	44%*	Joint venture

* through ownership in HTO1 LLP

For each of the arm's length companies where the Authority owns a 50% or greater share of the organisation, an assurance and governance review is regularly completed to confirm all legal and financial controls have been satisfied.

The Purpose of the Governance Framework

The Authority is responsible for ensuring that business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for and delivers value for money. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

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

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

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

The Authority has a Strategic Risk Register, which is regularly reported to and reviewed by Audit, Risk and Assurance Committee (ARAC) and the Senior Leadership Team. A revised Strategic Risk Framework has been developed to provide visibility of risk at strategic, operational, and programme levels and to ensure consistency across Directorates in how risks are identified, managed, monitored and escalated. The aim is for an integrated approach to risk management and processes to be developed alongside the organisation's performance management framework along with training and support to embed this new approach.

Annual Governance Statement

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

It is a document which looks back retrospectively over the past year and identifies where the WMCA has demonstrated good governance and looks forward to areas where focus should be given in relation to governance in the coming year.

Following the formal adoption of the CIPFA Financial Management (FM) Code in 2021/22, WMCA has undertaken a detailed self-assessment of its performance compared with the requirements of the FM Code and can confirm its compliance with the Code. There are some areas of further improvement that we have identified from this self-assessment and as recommended by our external auditors, Grant Thornton, in their latest Auditor's Annual report. Our self-assessment and identified improvement points can be found on our website.

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

These seven principles are:

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

The table below sets out examples of how the Authority has demonstrated compliance with these principles.

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

The Code of Conduct is laid out in the Constitution and was updated in March 2021 following the issue of a revised model of the Code of Conduct by the Local Government Association (LGA) which incorporates recommendations made by the Committee on Standards in Public Life (CSPL); this defines the standards of behaviour for Members and officers working on behalf of the Authority.

Following consideration by ARAC the revised code was adopted by the WMCA Board on 22nd March 2021. The Interim Director of Law and Governance who is the Monitoring Officer deals with issues of conduct and promotes high standards among officers, Members and the Mayor. ARAC performs the role of Standards Committee.

The WMCA has undertaken to review the governance of its formal decision-making bodies to ensure that these arrangements reflect the evolving role and remit of the WMCA as it develops from the organisation that was established in 2016. The first review to be undertaken has revised and refreshed the decision making in regard to its responsibilities relating to economic growth, culminating in the establishment of a new Economic Growth Board. This was approved by the

WMCA Board at its meeting in November 2021. Further governance reviews are due to be undertaken in respect of transport, wellbeing and public service reform responsibilities.

WMCA is committed to a better connected, more prosperous, fairer, greener and healthier region. This is our vision and will be achieved through living our values which are central to how we work and interact with our wider partners and stakeholders:

Collaborative

- Team Focussed – working as part of a team, managing and leading
- Service Driven – customer, resident and partner focused

Driven

- Empowered and Accountable – taking ownership and leading when needed
- Performance Focused – being ambitious and going the extra mile

Inclusive

- One Organisation Mindset – believe in each other's expertise
- Open and Honest Communication – we do what we say we are going to do

Innovative

- Forward Thinking – embrace change and open to new possibilities
- Problem Solving – go for clear and simple wherever possible

The business of the Authority will also be conducted in accordance with the Seven Principles of Public Life identified in The Nolan Committee Report (1995), and defined as Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

2. Ensuring openness and comprehensive stakeholder engagement

We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. All formal meetings are held in public and reports are in the public domain unless there are good reasons for confidentiality in individual cases.

All Committee meetings are held in public (other than in limited circumstances where consideration of confidential information requires the public to be excluded) with agenda and reports being accessible on the WMCA's external website. Following the restrictions imposed by Covid 19, all public meetings are now live streamed with recordings accessible through YouTube on-demand.

The Authority has in place a Publication Scheme proactively publishing information and is designed to make information readily available to the public without the need for specific written requests. Any information not published is available, subject to assessment, under the provisions of the Freedom of Information Act 2000. Details of how to make a request for information are available on our website.

We incorporate good governance arrangements with our partnerships and reflect these in our overall governance arrangements, and assess the effectiveness of relationship frameworks in order to identify any changes required.

Where consultation is required, we adhere to the principles of good consultation of "the Gunning Principles" and a variety of measures are used to seek the views of the public. For example, public consultation will be incorporated into any plans where a change to public transport policy is being considered.

Overview & Scrutiny Committee has responsibility to ensure that the decisions of the WMCA have taken into account all relevant information, are proportionate to the outcomes desired, and have been made in the best interests of the region. It is able to 'call in' any decision for further scrutiny that it considers may not meet these standards. It also conducts Q&A sessions with the Mayor twice a year, focusing on policy delivery and budget setting. All of its meetings are held in public and streamed online.

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

The Authority ensures the vision and implications for governance arrangement are regularly reviewed including the monitoring of its achievement of intended outcomes from social, economic, environmental and organisational health perspectives through the budget, performance framework, and project delivery process.

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

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

To ensure the purpose and vision of the Authority is clear and well communicated, an Annual Business Plan (ABP) is produced, falling from the WMCA Aims & Objectives, as agreed by WMCA Board in November 2021. The ABP outlines all activity to be undertaken in 2022/23 to deliver against the objectives, and progress is monitored through a number of outcome measures (both High Level Deliverables and profiled milestones) and reported monthly to the Strategic Leadership Team and bi-annually to WMCA Board. The 2022/23 outcome measures were agreed by WMCA Board in February 2022 as part of the Budget report.

The Aims & Objectives were approved by WMCA Board in November 2021 and are outlined below:

Aim 1: To promote inclusive economic growth in every corner of the region and stimulate the creation of good jobs
Aim 2: To ensure everyone has the opportunity to benefit as the region recovers from Covid 19, improves resilience and tackles long standing challenges
Aim 3: To connect our communities by delivering transport and unlocking housing and regeneration.
Aim 4: To reduce carbon emissions to net zero, enhance the environment and boost climate resilience
Aim 5: To secure new powers and resources from central government, and demonstrate the strength of our regional partnership
Aim 6: To develop our organisation and our role as a good regional partner.

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

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

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

Corporate strategic decisions are primarily taken at meetings of the WMCA Board, although Investment Fund decisions up to the value of £20M are delegated to the Investment Board. Other thematic Boards have roles as set out under the Single Assurance Framework (SAF) in terms of overseeing and reviewing project initiation and delivery. This includes reviewing progress of outcomes against delivery plans.

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

We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. As the Authority develops, we are reviewing our governance arrangements and the Constitution to ensure they remain fit for purpose in a growing organisation. A scheme of delegation is laid out in the Constitution. In July 2020 the WMCA Board approved the revised Single Assurance Framework which has also been signed off by MHCLG.

The collective and individual roles and responsibilities of the Strategic Leadership Team has been reviewed following the recent appointment of the Chief Executive to support our ambition to become an agile, and high performing workforce. Our approach to performance has been refreshed in line with our Re-set and Re-build programme.

Our new Performance Management and Monitoring & Evaluation Frameworks, together with a new performance reporting solution using Power Bi dashboards, provide a foundation for the journey towards data-driven and evidence-based decision making. This improves the visibility and transparency of reporting as a 'single version of the truth' and together with the introduction of a more dynamic business planning process enables regular conversations about the activity to be delivered and the resources, both financial and people required to achieve this. Our behavioural framework will be fundamental to our performance framework and will align to our goals – ensuring a 'golden thread' between the aims and objectives down to individual performance management goals enabling every one of our people to see their contribution to the vision. This will facilitate how we develop a culture that supports us all to be diverse, inclusive, innovative and proud to be part of the Authority.

We identify and aim to address the development needs of Members and officers in relation to their roles and support with appropriate induction and training. In addition, statutory training requirements are in place for all officers to ensure our duties under Equalities, Safeguarding and GDPR are met. In 2020/21 a considerable portion of the training budget was spent on the leadership of the organisation. Specifically in 2021/22, ARAC members received Risk Management and Finance training to allow them to understand the newly developed Risk Management Framework, financial accounts, financial reporting arrangements and the Authority's Treasury Management Strategy and practices.

Each year, after the local elections have been held, the WMCA provides an ‘induction day’ for newly elected members to provide an introduction to the WMCA, its role and remit, how it operates, and the role of elected members who are attending its boards and committees. This induction also provides further details on the key corporate strategies of the WMCA, along with its current Annual Business Plan.

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

The Strategic Risk Management Framework (SRMF) was approved by the WMCA Strategic Leadership Team in November 2021. The Framework provides clear standards of risk management, including the governance of risk within the organisation; specifying risk management accountabilities; and documenting the key responsibilities of different groups of employees (the Lines of Defence). All of which we are now using to embed risk management into the culture of the organisation. The aim being that clear and consistent risk management across the lines of defence, will improve the WMCA’s ability to operate within the risk appetite set by the Strategic Leadership Team for the six recognised risk categories.

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

ARAC is independent of the executive and scrutiny function; it has an independent, external Chair. It monitors and reviews risk and governance processes, in order to provide assurance to the WMCA Board on the effectiveness of these arrangements. Appropriate controls are in place for arms-length companies and as good practice, external auditors have been appointed for West Midlands Rail Limited, Midland Metro Limited, WM5G Limited, West Midlands Development Capital Limited, HT01 LLP and HT02 LLP.

Internal Audit provides the ‘third line of defence’ with the first line being policies, procedures and controls, and the second being managers’ own checks of the control environment, along with independent Risk Management and Programme Assurance activities undertaken as part of the Single Assurance Framework. Professional advice and good quality information is provided to ensure those making decisions are provided with relevant information that is fit for purpose.

The Single Assurance Framework was approved by WMCA Board in July 2020. This enhanced the previous document ensuring a consistent and proportionate approach to initiation, development and approval of projects and programmes with robust processes. This supports good governance with enhanced assurance tools and appraisal of projects, including identification of risks and issues of the project and the investment and how they are managed, reviewed, and escalated. The new assurance framework has been expanded to include assurance requirements for the new and proposed devolution deals, was approved by DfT, Department for Education (DfE) and MHCLG and is aligned to the National Single Pot Assurance Guidance.

Implementation of the Single Assurance Framework has been supplemented by the introduction of the reviewed governance arrangements to support Investment Programme decision making in the form of an Investment Panel and Investment Board. There are clear Terms of Reference for these groups and training has been provided to the members of these groups to support the undertaking of their roles and to understand the risks around these proposals. The introduction of the Assurance Toolkit and Risk & Investment Appraisal process review of project business cases through the Single Assurance Framework systematically seeks confidence and evidence for potential risks.

In 2021 the majority of the Authority’s audits of its Key Financial Systems received a ‘substantial’ internal audit rating. Further details regarding the work of the internal audit are set out on page 40.

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

The Authority has begun implementation of the WMCA Assurance Framework which was approved by MHCLG (previously Department of Communities and Local Government (DCLG)) in July 2020.

We continue to maintain close links with all relevant Government Departments and have regular conversations regarding issues including funding, delivery and devolution objectives.

The Authority has a monitoring officer who sits on both the Senior Leadership Team and attends the WMCA Board meetings to ensure all of our activity is legal. Our high level of Governance standards includes the publishing of agendas, minutes and reports in the public domain and only limited use of confidential reporting.

The 2021/22 internal audit plan was approved at ARAC's March 2021 meeting.

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

A Whistleblowing Policy and procedure is in place, last reviewed in May 2021. The Policy is intended to encourage and enable employees and stakeholders to raise serious concerns about any wrongdoing considered to be in the public interest, with the ability for confidential and anonymous reporting of claims to be made through the WMCA website.
Any issues raised are considered by the Monitoring Officer in conjunction with Internal Audit, the Finance Director and Chair of ARAC to determine the progression of claims.

Annual Review of Effectiveness of Governance Framework

The Opinion of the Interim Director of Law and Governance 2021/2022

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

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

These statements have been confirmed and agreed by the Interim Director of Law and Governance and the Executive Finance Director respectively.

The Interim Director of Law and Governance is satisfied that the system of internal assurance is robust and provides visibility of risk and reasonable assurance to the Strategic Leadership Team.

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

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

A wide range of audits have been undertaken by the Internal Audit service (provided by City of Wolverhampton Council) throughout the year with the outcome of each being awarded either Substantial or Satisfactory audit ratings, with only one exception of a limited assurance report regarding the Longbridge Park and Ride income management and charging arrangements, and all audit recommendations being accepted by users.

During 2021/22, the outcome of the audit of Key Financial systems resulted in Substantial ratings for all systems aside from Accounts Payable which was rated Satisfactory. All audit recommendations for Accounts Payable have been accepted and will be resolved by June 2022.

The monitoring of progress on delivery of audit actions has been introduced by ARAC in 21/22 to support delivery within the expected timeframe. This demonstrates the continued effectiveness of systems and processes supporting Audit, Risk and Governance.

Since March 2021, the scope of the Single Assurance Framework (SAF) Implementation Project was expanded to ensure all WMCA Project Portfolios were aligned to SAF. This objective has substantially been met achieving the directive from the WMCA Statutory Officers. There has been a considerable increase in the number of business cases and change requests developed from Investment Programme and other Project Portfolios demonstrating increased project controls and standard processes are being deployed across WMCA. Regular updates on progress with an evidence base insight information has been shared with the Strategic Leadership Team and ARAC throughout 2021/22.

Progress of the 2021/22 High Level Deliverables was monitored on a monthly basis by the Strategic Leadership Team by exception reporting and against identification of key risks that could impact on delivery. In addition, performance was reported to WMCA Board mid-year and an outturn report.

Operational Risk Registers are in place within directorates and review meetings take place across all the Authority’s activities enabling full visibility of key risks with the potential to impact on the organisation. The Strategic Risk Management Framework includes an escalation process that allows for risks to be escalated, ultimately to the WMCA Strategic Risk Register. Regular meetings are in place with the management team of each business area to monitor the status of risks and to ascertain the level of risk exposure in each of these areas to determine the assurance conclusions. Additionally, the Strategic Risk Register is reviewed by Strategic Leadership Team on a quarterly basis. Risk Management, Performance Management and Business Planning activity is being brought together to provide a strong evidence base to substantiate the risk assumptions and improve decision making.

In accordance with the recently ratified Digital and Data Strategy, the organisation has adopted cabinet office levels of protective security. These mandated standards will allow for increasing maturity across the business by adherence to articulated mandates and best practice advise and guidance. Any non-conformity constitutes risk and can then be managed appropriately.

The last two years has seen an unprecedented challenge in the shape of the COVID-19 pandemic. This has affected every area of life in the UK and clearly these issues have affected the Authority as with others. Through agile working and the implementation of our corporate resilience arrangements we have been able to continue to manage workloads and delivery. We have worked with public transport providers to ensure that appropriate measures are in place to safeguard the public. We have taken a key role in regional response and recovery arrangements and are leading work to ensure that the economic recovery of the West Midlands is put on a secure footing. Through the use of remote meeting technology, we were able to ensure the continuation of political meetings and decision-making and controls have remained robust.

The Authority has set itself a demanding programme of work and is ambitious for itself and the benefits that it hopes to bring to the region. It has been successful in negotiations for a second Devolution Deal and has recruited an able team of experienced professionals to form the leadership team. There is significant pressure on resources however, particularly in matching staff resources to the tasks in hand and this is being carefully monitored by the Authority and a plan is in place to mitigate these pressures accordingly.

This Annual Governance Statement identifies that WMCA has effective arrangements in place; however, the organisation realises the need to monitor its governance arrangements on an ongoing basis given the ever-changing environment within which it operates, and due to the organisation continuing to evolve. Whilst the organisation has not identified any significant Governance issues, a number of areas for development have been outlined within the table below and appropriate action is being taken to ensure these do not develop into anything of significance.

Area	**Action to be taken**
Governance arrangements between Midland Metro and WMCA	An independent review of the governance arrangements between both parties is currently in progress with the outcome and recommendations to be considered and implemented as appropriate.
Safeguarding arrangements	WMCA's safeguarding policy to be reviewed to ensure it continues to meet our obligations and ensures the safety of all young persons engaged with the organisation.
Single Assurance Framework (SAF)	A periodic re-assessment and update of the Single Assurance Framework to be undertaken ensuring it continues to meet all legislative requirements including the introduction of Assurance arrangements for Adult Education services.
Corporate Aims and Objectives	Continued embedding of the performance management arrangements, providing management with reporting arrangements to demonstrate its achievement in delivering the Corporate Aims and Annual Business Plan.
Governance review	Recommendations arising from the Governance review undertaken in 21/22 will be implemented as set out in the associated report including the; • Rationalisation of decision-making and advisory bodies within service areas • Refinement of reporting and engagement processes • Engagement with Constituent and non-Constituent members • Review of arrangements for Member Allowances
Freedom of Information / GDPR	Review to be undertaken of our data protection and security policies.

Conclusion

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

On behalf of the West Midlands Combined Authority

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

Laura Shoaf
Chief Executive
Date:

Independent auditor's report to the members of West Midlands Combined Authority

Report on the Audit of the Financial Statements

Opinion on financial statements

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AUTHORITY COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing the Authority's services in accordance with generally accepted accounting practices, rather than the amount to be funded from resources. The reconciliation from the accounting cost to the funding position is shown in both the Expenditure and Funding Analysis (note 6) and the Movement in Reserves Statement.

The 2020/21 comparatives have been restated in line with the Code with further details in note 40 Prior period adjustments. This is a presentational adjustment with no impact on the General Fund balance.

The reconciliation of Total Comprehensive Income and Expenditure to Surplus or deficit for the year under funding basis is provided in note 5.

2020/2021 (restated)					2021/2022		
Gross Expenditure £'000	**Gross Income** £'000	**Net Expenditure** £'000		Notes	**Gross Expenditure** £'000	**Gross Income** £'000	**Net Expenditure** £'000
194,761	(69,951)	124,810	Transport services	8	291,746	(154,691)	137,055
155,983	(153,953)	2,030	Combined Authority wider services	9	181,801	(172,047)	9,754
96,444	-	96,444	Investment Programme	10	95,613	-	95,613
796	(807)	(11)	Mayor's office	11	782	(760)	22
-	-	-	Mayoral elections	12	3,118	-	3,118
447,984	**(224,711)**	**223,273**	**Cost of services**		**573,060**	**(327,498)**	**245,562**
(1,584)	-	(1,584)	Other operating expenditure	13	6,226	-	6,226
6,550	(1,975)	4,575	Financing and investment income and expenditure	14	8,124	(2,680)	5,444
77,139	(306,092)	(228,953)	Taxation and non-specific grant income and expenditure	15	63,645	(370,180)	(306,535)
530,089	**(532,778)**	**(2,689)**	**(Surplus) or deficit on provision of services**		**651,055**	**(700,358)**	**(49,303)**
		20,118	Remeasurement of the net defined benefit liability	32			(35,194)
		-	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	30			877
		20,118	**Other Comprehensive Income and Expenditure**				**(34,317)**
		17,429	**Total Comprehensive Income and Expenditure**				**(83,620)**

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

The 2020/21 comparatives have been restated in line with the Code with further details in note 40 Prior period adjustments. This is a presentational adjustment with no impact on the General Fund balance.

The reconciliation of Total Comprehensive Income and Expenditure to Surplus or deficit for the year under funding basis is provided in note 5.

2020/2021 (restated)					2021/2022		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
206,111	(38,353)	167,758	Transport services		301,547	(164,517)	137,030
164,815	(152,532)	12,283	Combined Authority wider services		192,559	(181,709)	10,850
96,173	-	96,173	Investment Programme		95,488	-	95,488
796	(807)	(11)	Mayor's office		782	(760)	22
-	-	-	Mayoral elections		3,118	-	3,118
467,895	**(191,692)**	**276,203**	**Cost of services**		**593,494**	**(346,986)**	**246,508**
(1,584)	-	(1,584)	Other operating expenditure	13	6,226	-	6,226
6,988	(1,938)	5,050	Financing and investment income and expenditure	14	8,970	(2,639)	6,331
76,879	(358,431)	(281,552)	Taxation and non-specific grant income and expenditure		62,905	(370,180)	(307,275)
550,178	**(552,061)**	**(1,883)**	**(Surplus) or deficit on provision of services**		**671,595**	**(719,805)**	**(48,210)**
		-	Tax expenses of subsidiary				-
		(1,883)	**Group (surplus) or deficit**				**(48,210)**
		20,118	Remeasurement of the net defined benefit liability	32			(35,194)
		-	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income				877
		20,118	**Other Comprehensive Income and Expenditure**				**(34,317)**
		18,235	**Total Comprehensive Income and Expenditure**				**(82,527)**

AUTHORITY MOVEMENT IN RESERVES

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

	Usable reserves					Unusable reserves							
	General Fund Balance	Earmarked Reserves	Total General Fund Balance	Capital Receipts Reserve	Total Usable Reserves	Reval-uation Reserve	Capital Adjustment Account	Financial Instruments Revaluation Reserve	Financial Instruments Adjustment Account	Pensions Reserve	Accumulated Absences Account	Total Unusable Reserves	Total reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2020	**2,302**	**146,557**	**148,859**	**247**	**149,106**	**6,531**	**83,928**	**-**	**-**	**(39,902)**	**(496)**	**50,061**	**199,167**
Movements in reserves during 2020/21													
Total comprehensive income and expenditure	2,689	-	2,689	-	2,689	-	-	-	-	(20,118)	-	(20,118)	(17,429)
Adjustments between accounting basis and funding basis under regulations (note 6b)	34,496	-	34,496	1,594	36,090	(212)	(26,706)	-	(2,388)	(6,250)	(534)	(36,090)	-
Increase or (decrease) in 2020/21 before transfer to earmarked reserves	**37,185**	**-**	**37,185**	**1,594**	**38,779**	**(212)**	**(26,706)**	**-**	**(2,388)**	**(26,368)**	**(534)**	**(56,208)**	**(17,429)**
Transfers to/(from) earmarked reserves	(37,139)	37,139	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 March 2021 carried forward	**2,348**	**183,696**	**186,044**	**1,841**	**187,885**	**6,319**	**57,222**	**-**	**(2,388)**	**(66,270)**	**(1,030)**	**(6,147)**	**181,738**
Movements in reserves during 2021/22													
Total comprehensive income and expenditure	49,303	-	49,303	-	49,303	-	-	(877)	-	35,194	-	34,317	83,620
Adjustments between accounting basis and funding basis under regulations (note 6b)	(14,084)	-	(14,084)	-	(14,084)	(193)	27,044	230	311	(13,200)	(108)	14,084	-
Increase or (decrease) in 2021/22 before transfer to earmarked reserves	**35,219**	**-**	**35,219**	**-**	**35,219**	**(193)**	**27,044**	**(647)**	**311**	**21,994**	**(108)**	**48,401**	**83,620**
Transfers to/(from) earmarked reserves	(35,960)	35,960	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 March 2022 carried forward	**1,607**	**219,656**	**221,263**	**1,841**	**223,104**	**6,126**	**84,266**	**(647)**	**(2,077)**	**(44,276)**	**(1,138)**	**42,254**	**265,358**

GROUP MOVEMENT IN RESERVES

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

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Total General Fund Balance £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Authority Reserves £'000	Reserves of the Subsidiary £'000	Total reserves £'000
Balance at 31 March 2020	**2,302**	**146,557**	**148,859**	**247**	**149,106**	**50,061**	**199,167**	**3,335**	**202,502**
Movements in reserves during 2020/21									
Total comprehensive income and expenditure	1,883	-	1,883	-	1,883	(20,118)	(18,235)	-	(18,235)
Adjustments between group accounts and authority accounts	806	-	806	-	806	-	806	(806)	-
Net increase/decrease before transfers	**2,689**	**-**	**2,689**	**-**	**2,689**	**(20,118)**	**(17,429)**	**(806)**	**(18,235)**
Adjustments between accounting basis and funding basis under regulations (note 6b)	34,496	-	34,496	1,594	36,090	(36,090)	-	-	-
Increase or (decrease) in 2020/21 before transfer to earmarked reserves	**37,185**	**-**	**37,185**	**1,594**	**38,779**	**(56,208)**	**(17,429)**	**(806)**	**(18,235)**
Transfers to/(from) earmarked reserves	(37,139)	37,139	-	-	-	-	-	-	-
Balance at 31 March 2021 carried forward	**2,348**	**183,696**	**186,044**	**1,841**	**187,885**	**(6,147)**	**181,738**	**2,529**	**184,267**
Movements in reserves during 2021/22									
Total comprehensive income and expenditure	48,224	-	48,224	-	48,224	34,317	82,541 -	(14)	82,527
Adjustments between group accounts and authority accounts	1,079	-	1,079	-	1,079	-	1,079	(1,079)	-
Net increase/decrease before transfers	**49,303**	**-**	**49,303**	**-**	**49,303**	**34,317**	**83,620**	**(1,093)**	**82,527**
Adjustments between accounting basis and funding basis under regulations (note 6b)	(14,084)	-	(14,084)	-	(14,084)	14,084	-	-	-
Increase or (decrease) in 2021/22 before transfer to earmarked reserves	**35,219**	**-**	**35,219**	**-**	**35,219**	**48,401**	**83,620**	**(1,093)**	**82,527**
Transfers to/(from) earmarked reserves	(35,960)	35,960	-	-	-	-	-	-	-
Balance at 31 March 2022 carried forward	**1,607**	**219,656**	**221,263**	**1,841**	**223,104**	**42,254**	**265,358**	**1,436**	**266,794**

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

		31 March 2022		31 March 2021	
		Authority	Group	Authority	Group
	Notes	£'000	£'000	£'000	£'000
Property, plant and equipment	19	599,895	600,242	483,792	484,044
Intangible assets	20	1,911	1,911	1,594	1,594
Long-term investments	21	22,346	22,346	6,641	6,641
Long-term debtors	34	16,159	16,159	15,951	15,951
Long-term assets		**640,311**	**640,658**	**507,978**	**508,230**
Short-term investments	21	252,219	252,219	118,098	118,098
Inventories	22	8,467	9,418	13,082	13,904
Short-term debtors	23	66,748	70,885	49,714	52,001
Cash and cash equivalents	24	369,503	371,089	144,413	148,702
Current assets		**696,937**	**703,611**	**325,307**	**332,705**
Short-term borrowing	25	(15,319)	(15,319)	(1,925)	(1,925)
Short-term creditors	26	(121,552)	(127,137)	(111,860)	(116,149)
Provisions	27	(2,011)	(2,011)	(2,071)	(2,071)
Grants receipts in advance - revenue	15	(20,936)	(20,936)	(12,976)	(13,808)
Transferred debt	28	(1,074)	(1,074)	(982)	(982)
Current liabilities		**(160,892)**	**(166,477)**	**(129,814)**	**(134,935)**
Net current assets/(liabilities)		**536,045**	**537,134**	**195,493**	**197,770**
Long-term borrowing	25	(439,232)	(439,232)	(118,078)	(118,078)
Provisions	27	(2,837)	(2,837)	(2,234)	(2,234)
Grants receipts in advance - capital	15	(424,109)	(424,109)	(337,140)	(337,140)
Transferred debt	28	(3,670)	(3,670)	(4,678)	(4,678)
Net pension liability	32	(41,150)	(41,150)	(59,603)	(59,603)
Long-term liabilities		**(910,998)**	**(910,998)**	**(521,733)**	**(521,733)**
Net assets/(liabilities)		**265,358**	**266,794**	**181,738**	**184,267**
General Fund Balance	29	1,607	1,607	2,348	2,348
Earmarked Reserves	29	219,656	221,106	183,696	186,225
Capital Receipts Reserve	29	1,841	1,841	1,841	1,841
Profit and Loss Reserve	29	-	(14)	-	-
Usable reserves		**223,104**	**224,540**	**187,885**	**190,414**
Revaluation Reserve	30	6,126	6,126	6,319	6,319
Capital Adjustment Account	30	84,266	84,266	57,222	57,222
Financial Instruments Revaluation Reserve	30	(647)	(647)	-	-
Financial Instruments Adjustment Account	30	(2,077)	(2,077)	(2,388)	(2,388)
Pensions Reserve	30	(44,276)	(44,276)	(66,270)	(66,270)
Accumulated Absences Account	30	(1,138)	(1,138)	(1,030)	(1,030)
Unusable reserves		**42,254**	**42,254**	**(6,147)**	**(6,147)**
Total reserves		**265,358**	**266,794**	**181,738**	**184,267**

This financial report replaces the unaudited financial report certified by Linda Horne on 23 June 2022. They were approved for issue by the Audit, Risk and Assurance Committee on 24 January 2023. Events after the Balance Sheet date have been considered up to the date of approval.

CASH FLOW STATEMENT

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

	2022		2021	
	Authority £'000	Group £'000	Authority £'000	Group £'000
Net (deficit)/surplus on the provision of services	49,303	48,210	2,689	1,883
Adjustments to net surplus or deficit on the provision of services for non-cash movements				
Depreciation and amortisation of non-current assets	21,801	21,907	19,919	20,054
Net amounts of non-current assets written off on disposal	6,226	6,226	10	10
Non-current assets transferred to provision of services	817	817	517	517
Other non-cash items charged to the net (deficit)/surplus on the provision of services	(230)	(230)	-	-
Change in pensions liability (note 32)	16,741	16,741	(417)	(417)
(Increase)/decrease in long-term debtors	(208)	(208)	(15,710)	(15,710)
(Increase)/decrease in short-term debtors	(17,034)	(18,884)	(6,611)	(4,935)
(Increase)/decrease in inventories	4,615	4,486	(658)	(651)
(Decrease)/increase in short-term creditors	9,692	10,988	38,475	40,196
(Decrease)/increase in provisions	543	543	1,562	1,562
Net interest payable	4,583	4,624	4,455	4,492
Interest paid	(6,275)	(6,275)	(6,471)	(6,471)
Interest received	2,680	2,639	1,975	1,938
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities				
Capital grants received	(204,891)	(204,891)	(142,303)	(142,303)
Capital grants paid	63,645	63,645	77,139	77,139
Any other items for which the cash effects are investing or financing cash flows	-	-	(1,594)	(1,594)
Net cash flows from operating activities	**(47,992)**	**(49,662)**	**(27,023)**	**(24,290)**
Investing activities				
Purchase of property, plant and equipment and intangible asset	(145,264)	(145,465)	(94,946)	(94,975)
Purchase of short-term and long-term investments	(529,958)	(529,958)	(217,582)	(217,582)
Proceeds from short-term and long-term investments	379,485	379,485	105,931	105,931
Capital grants received for the purchase of property, plant and equipment, intangible asset and inventories	141,246	141,246	65,164	65,164
Increase/(decrease) in grants receipts in advance	94,929	94,097	238,662	239,494
Other receipts from investing activities	-	-	1,594	1,594
Net cash flows from investing activities	**(59,562)**	**(60,595)**	**98,823**	**99,626**
Financing activities				
Cash receipts of short- and long-term borrowing	382,000	382,000	-	-
Repayment of loans	(48,440)	(48,440)	(5,347)	(5,347)
Transferred debt - repayment of principal	(916)	(916)	(833)	(833)
Net cash flows from financing activities	**332,644**	**332,644**	**(6,180)**	**(6,180)**
Net increase or decrease in cash and cash equivalents	**225,090**	**222,387**	**65,620**	**69,156**
Cash and cash equivalents at 1 April	144,413	148,702	78,793	79,546
Cash and cash equivalents at 31 March (note 24)	**369,503**	**371,089**	**144,413**	**148,702**

Notes Index

1. Basis of preparation

a) General principles

The Statement of Accounts summarises the Authority and the Group's transactions for the 2021/22 financial year and the position as at 31 March 2022. The Authority is required to prepare an Annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), supported by International Financial Reporting Standards (IFRS).

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

b) Basis of preparation

i) Authority Accounts

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

ii) Group Accounts

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

The Group's financial statements have been prepared using uniform accounting policies and on a historical cost basis modified by the revaluation of certain categories of non-current assets in accordance with the Code and incorporate the financial statements of the Authority and its material subsidiaries as at 31 March 2022.

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

c) Going concern

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

2. Significant accounting policies

a) Consolidation

The Authority is required to produce group accounts where it has interests in subsidiaries, associates and/or joint ventures unless the interest is considered not material. The group boundary is dependent upon the extent of the Authority's control or significant influence over the entity.

Inclusion in the group is dependent upon the extent of the Authority's interest in and power to influence an entity. The Authority is considered to control an entity if it has power over the entity, exposure or rights to variable returns from its interest with the entity and the ability to use its power to affect the level of returns. The determining factor for assessing the extent of interest and power to influence is either through ownership of an entity or representation at an entity's board of directors or management board.

An assessment of all the Authority's interests has been carried out during the year to determine the relationships that exist and whether they should be included within the Authority's group accounts. As such, the accounts of Midlands Development Capital Limited, Network West Midlands Limited and West Midlands Development Capital Limited which are subsidiaries of the Authority; its associates, West Midlands Rail Limited, and joint ventures in HTO1 LLP and HTO2 LLP have not been consolidated with those of the Authority because the companies are either dormant and do not hold any assets or liabilities or are not material (see note 21 on investments).

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

b) Taxation

Corporation, income and capital gains tax

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

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

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

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

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

Value added tax (VAT)
Revenues, expenses and assets are recognised net of the amount of VAT except:

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

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

c) Income

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

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

d) Government grants and other contributions

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

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

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

e) Revenue expenditure funded from capital under statute

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

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

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

Any grants and/or contributions receivable by the Authority in relation to REFCUS are charged to the Cost of services that the related expenditure is expensed to. These are then reversed out of the General Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

f) Pensions scheme

Defined Benefit Pension Scheme

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

The Authority's share of the fund's assets and liabilities are recognised in the Balance Sheet in accordance with IAS 19. The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - i) current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - ii) past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement
  - iii) net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into

account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  i) the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as other comprehensive income and expenditure
  ii) actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure
  iii) contribution paid to the West Midlands Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Defined Contribution Pension Scheme

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

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

g) Financial assets

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

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

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

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

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

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

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

The Authority has made a loan at less than market rates (soft loan). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

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

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

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

Financial assets measured at fair value through other comprehensive income (FVOCI)
Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Authority becomes party to the contractual provisions of a financial instrument and are initially measured at cost and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

With the adoption of IFRS 9 Financial Instruments, the standard requires that investments in equity is classified as fair value through profit or loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income. The investment in HTO1 LLP and HTO2 LLP is an equity instrument and as such, the default position is that any gains and losses would be recognised through profit or loss.

As the Authority's equity in HTO1 LLP and HTO2 LLP is a strategic investment and not held for trading, the Authority has opted to make the irrevocable election to designate it as fair value through other comprehensive income. The impact of the election is that the movements in fair value will not be recognised in the surplus or deficit on the provision of services. The movements in fair value will be accumulated in the financial instruments revaluation reserve until the equity instrument is derecognised, at which point the net gain or loss would be transferred to the General Fund balance.

Financial assets measured at fair value through profit or loss (FVPL)
Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the surplus or deficit on the provision of services.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Fair value measurements of financial assets
Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date
- level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly
- level 3 inputs – unobservable inputs for the asset

h) Financial liabilities

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movements in Reserves Statement. In 2021/22, no such transactions have occurred.

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

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

i) Intangible assets

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the assets and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life, in this case 5 years, on a straight-line basis to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

j) Property, plant and equipment

Recognition and measurement

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

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

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

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

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

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

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

Depreciation

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

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

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

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

Midland Metro – future routes

Expenditure, other than land purchase, on other areas of the network will be capitalised once approval for a particular line is received and the development is likely to proceed. Costs which do not meet the definition for non-current assets are charged to the Comprehensive Income and Expenditure Statement. Land acquired for the expansion of the network is capitalised and included in land, measured at fair value. Once approval for a line is received and the development is likely to proceed, the land then is transferred to infrastructure.

Assets under construction

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

k) Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value and comprise of assets acquired under the Land Fund pending completion of remediation works.

Midland Metro Limited
Inventories are included in the Balance Sheet at the lower of cost and net realisable value, on a "first in, first out" basis.

l) Joint arrangements
Joint arrangements are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the establishment of a separate entity. The Authority recognises its interest in the joint operations and its share of profit or loss from the joint operations in line with the contractual arrangements set out in the joint arrangement.

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

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

n) Impairment

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

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

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

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

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

p) Minimum Revenue Provision

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

- For capital expenditure incurred before 1 April 2008, MRP will be determined as 2% of the capital financing requirement in respect of that expenditure.
- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 2%, starting in the year after the asset becomes operational.
- For capital expenditure loans to third parties WMCA will make nil MRP but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

In relation to the Authority wider Devolution Investment Programme, MRP is charged over 30 years in order to repay all the Investment Plan borrowing.

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

q) Events After the Reporting Period

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

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

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

r) Prior Period Adjustments and changes in accounting policies

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

3. Critical accounting judgements, estimates and assumptions

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

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

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

Group Boundaries
The Authority has a number of interests in other entities which fall within the group boundary (see note 21). Midland Metro Limited and WM5G Limited are deemed to be material and are therefore consolidated into the group accounts.

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

The item in the Balance Sheet at 31 March 2022 for which there is a risk of material adjustment in the forthcoming financial year is as follows:

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

  The effects of changes in individual assumptions have been measured by the fund's actuaries in their 2022 IAS 19 valuation report:

  - A 0.1% p.a. decrease in the Real Discount Rate will increase the pension fund liability by £4.629m.
  - An increase of life expectancy at retirement by 1 year will increase the pension fund liability by £14.229m.
  - 0.1% p.a. increase in the Salary Increase Rate will increase the pension fund liability by £0.404m.
  - 0.1% p.a. increase in the Pension Increase Rate (CPI) will increase the pension fund liability by £4.184m.

4. Accounting Standards issued but not yet adopted

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

The Code requires local authorities to disclose information relating to the impact of an accounting change that will be required by a new standard under the International Financial Reporting Standard (IFRS) that has been issued but not yet adopted by the Code. The accounting standards that are to be introduced in the 2022/23 CIPFA Code of Practice are:

- Annual Improvements to IFRS Standards 2018 – 2020 – amendments to IFRS 1 (First-time adoption), clarification on IAS 37 (Onerous contracts), amendment to IFRS 16 (Leases) and IAS 41 (Agriculture)
- Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

These amendments will not be applicable and there will be no impact on the Authority or the Group's financial performance or position.

5. Reconciliation of Total Comprehensive Income and Expenditure to Surplus or deficit for the year under funding basis

		2021/2022		2020/2021	
		Authority	Group	Authority	Group
		Net Expenditure	Net Expenditure	Net Expenditure	Net Expenditure
	Notes	£'000	£'000	£'000	£'000
Total Comprehensive Income and Expenditure		**(83,620)**	**(82,527)**	**17,429**	**18,235**
Adjustments between funding and accounting basis under regulations	6	14,084	14,084	(34,496)	(34,496)
Transfer to Pensions Reserve	32	35,194	35,194	(20,118)	(20,118)
Transfer to Financial Instruments Revaluation Reserve	30	(877)	(877)	-	-
Transfers to/from Earmarked Reserves					
- General fund	29	15,558	14,712	14,382	13,944
- Unapplied revenue grants	29	16,181	16,181	9,307	9,307
- Investment programme funding	29	4,221	3,988	13,450	13,082
(Surplus) or deficit for the year under funding basis		**741**	**755**	**(46)**	**(46)**

6. Expenditure and Funding Analysis - Authority

(a) Expenditure and Funding Analysis

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

Analysis for 2021/22

	As reported for resource management (notes 7 - 10)	Adjustments to arrive at amounts chargeable to the General Fund		Net expenditure chargeable to the General Fund	Adjustments between funding and accounting basis (note 5b)	Net expenditure in the Comprehensive Income and Expenditure Statement
		Reserves Transfer	Financing			
	£'000	£'000	£'000	£'000	£'000	£'000
Transport services (note 8)	114,720	515	(6,243)	108,992	28,063	137,055
Combined Authority wider services (note 9)	6,603	(15,326)	2,245	(6,478)	16,232	9,754
Investment Programme (note 10)	45,683	(24,289)	(1,619)	19,775	75,838	95,613
Mayor's office (note 11)	-	22	-	22	-	22
Mayoral elections (note 12)	-	3,118	-	3,118	-	3,118
Cost of services	**167,006**	**(35,960)**	**(5,617)**	**125,429**	**120,133**	**245,562**
Other operating expenditure	-	-	-	-	6,226	6,226
Financing and investment income and expenditure	(976)	-	5,617	4,641	803	5,444
Taxation and non-specific grant income and expenditure	(165,289)	-	-	(165,289)	(141,246)	(306,535)
(Surplus) or deficit on provision of services	**741**	**(35,960)**	-	**(35,219)**	**(14,084)**	**(49,303)**
Opening General Fund Balance (ncluding Earmarked Reserves)				(186,044)		
Closing General Fund Balance (including Earmarked Reserves)				**(221,263)**		

Comparatives for 2020/21 (restated)

	As reported for resource management (notes 7 - 10)	Adjustments to arrive at amounts chargeable to the General Fund		Net expenditure chargeable to the General Fund	Adjustments between funding and accounting basis (note 5b)	Net expenditure in the Comprehensive Income and Expenditure Statement
		Reserves Transfer	Financing			
	£'000	£'000	£'000	£'000	£'000	£'000
Transport services (note 8)	114,531	(7,539)	(6,306)	100,686	24,124	124,810
Combined Authority wider services (note 9)	6,107	(7,760)	-	(1,653)	3,683	2,030
Investment Programme (note 10)	44,106	(21,829)	1,347	23,624	72,820	96,444
Mayor's office (note 11)	-	(11)	-	(11)	-	(11)
Cost of services	**164,744**	**(37,139)**	**(4,959)**	**122,646**	**100,627**	**223,273**
Other operating expenditure	-	-	-	-	(1,584)	(1,584)
Financing and investment income and expenditure	(1,001)	-	4,959	3,958	617	4,575
Taxation and non-specific grant income and expenditure	(163,789)	-	-	(163,789)	(65,164)	(228,953)
(Surplus) or deficit on provision of services	**(46)**	**(37,139)**	-	**(37,185)**	**34,496**	**(2,689)**
Opening General Fund Balance (ncluding Earmarked Reserves)				(148,859)		
Closing General Fund Balance (including Earmarked Reserves)				**(186,044)**		

(b) Note to the Expenditure and Funding Analysis

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

Adjustments for 2021/22

	Adjustments for capital purposes				Financial Instruments Adjustments Account	Pensions adjustments	Accumulated Absences Account	Total adjustments
	Depreciation/ revaluation/ loss on disposal	REFCUS	Grants/ contributions	Financing				
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transport services	21,801	127,661	(122,405)	(8,355)	-	9,253	108	28,063
Combined Authority wider services	5,905	20,771	(13,047)	-	-	2,603	-	16,232
Investment Programme	-	88,869	-	(13,031)	-	-	-	75,838
Mayor's office	-	-	-	-	-	-	-	-
Mayoral elections	-	-						-
Net cost of services	**27,706**	**237,301**	**(135,452)**	**(21,386)**	**-**	**11,856**	**108**	**120,133**
Other operating expenditure	6,226	-	-	-	-	-	-	6,226
Financing and investment income and expenditure	-	-	-	-	(541)	1,344	-	803
Taxation and non-specific grant income and expenditure	-	-	(141,246)	-	-	-	-	(141,246)
(Surplus) or deficit on provision of services	**33,932**	**237,301**	**(276,698)**	**(21,386)**	**(541)**	**13,200**	**108**	**(14,084)**

Comparatives for 2020/21 (restated)

	Adjustments for capital purposes				Financial Instruments Adjustments Account	Pensions adjustments	Accumulated Absences Account	Total adjustments
	Depreciation/ revaluation/ loss on disposal	REFCUS	Grants/ contributions	Financing				
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transport services	19,919	44,404	(42,985)	(2,086)	-	4,338	534	24,124
Combined Authority wider services	-	9,354	(9,354)	-	2,595	1,088	-	3,683
Investment Programme	-	89,295	-	(16,475)	-	-	-	72,820
Mayor's office	-	-	-	-	-	-	-	-
Net cost of services	**19,919**	**143,053**	**(52,339)**	**(18,561)**	**2,595**	**5,426**	**534**	**100,627**
Other operating expenditure	10	-	-	(1,594)	-	-	-	(1,584)
Financing and investment income and expenditure	-	-	-	-	(207)	824	-	617
Taxation and non-specific grant income and expenditure	-	-	(65,164)	-	-	-	-	(65,164)
(Surplus) or deficit on provision of services	**19,929**	**143,053**	**(117,503)**	**(20,155)**	**2,388**	**6,250**	**534**	**34,496**

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

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

Grants/contributions – capital grants and contributions receivable funding REFCUS are credited to the services and the taxation and non-specific grant income and expenditure line is credited with capital grants receivable and payable in the year without conditions or for which conditions were satisfied in the year.

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

Financial Instruments Adjustments Account – the adjustment to reverse the impact on the General Fund of accounting for soft loans and pooled investment funds in the surplus or deficit on the provision of services in accordance with relevant statutory provisions.

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

The methodology for allocating pensions adjustments between services reflects the underlying activity.

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

7. Expenditure and income analysed by nature

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

	Authority	
		(restated)
	2021/22	**2020/21**
	£'000	£'000
Expenditure		
Employee benefits expenses	39,513	33,733
Other service expenses	257,501	246,370
IAS 19 pension adjustment	13,200	6,250
Depreciation, amortisation and impairment	27,706	19,919
REFCUS	236,484	142,536
Other operating expenditure	6,226	(1,584)
Interest payments	6,780	5,726
	587,410	452,950
Income		
Fees and charges and other service income	(151,895)	(64,608)
Government revenue grants and contributions	(212,103)	(196,603)
Local Authority business rates growth and contributions	(14,069)	(12,569)
Levies	(114,720)	(114,720)
Capital grants and contributions (net of payments)	(141,246)	(65,164)
Interest and investment income	(2,680)	(1,975)
	(636,713)	(455,639)
Surplus on provision of services	**(49,303)**	**(2,689)**

8. Transport services

Analysis for 2021/22	Authority Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Concessions	56,229	(176)	56,053
Bus Services	33,598	(13,920)	19,678
Rail and Metro Services	8,721	(1,666)	7,055
Integration	12,078	(3,492)	8,586
Network Resilience	2,546	(130)	2,416
Commonwealth Games	5,279	(5,279)	-
Business Support Costs	4,905	(1,236)	3,669
Strategic Development	5,561	(1,620)	3,941
Transport Governance	128	-	128
LSTF/Midlands Connect Programmes	5,225	(5,225)	-
Finance Charges	8,874	-	8,874
Reserves transfer - approved contribution to 2022-23 budget	3,600	-	3,600
Reserves transfer - transport risks	6,350	-	6,350
Use of Reserves	(5,630)	-	(5,630)
As reported to management (note 6)	**147,464**	**(32,744)**	**114,720**
Adjustments to arrive at amounts chargeable to the General Fund	(6,186)	458	(5,728)
Adjustments between funding and accounting basis (note 6b)	150,468	(122,405)	28,063
Per Comprehensive Income and Expenditure Statement	**291,746**	**(154,691)**	**137,055**

Comparatives for 2020/21 (restated)	Authority Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Concessions	58,155	(94)	58,061
Bus Services	33,988	(11,796)	22,192
Rail and Metro Services	10,348	(2,822)	7,526
Integration	9,285	(3,596)	5,689
Network Resilience	2,198	(444)	1,754
Commonwealth Games	1,503	(1,503)	-
Business Support Costs	3,581	-	3,581
Strategic Development	4,378	(1,204)	3,174
Transport Governance	127	-	127
LSTF/Midlands Connect Programmes	5,004	(5,004)	-
Finance Charges	12,160	-	12,160
Reserves transfer - approved contribution to 2020-21 budget	3,900	-	3,900
Use of Reserves	(3,633)	-	(3,633)
As reported to management (note 6)	**140,994**	**(26,463)**	**114,531**
Adjustments to arrive at amounts chargeable to the General Fund	(13,342)	(503)	(13,845)
Adjustments between funding and accounting basis (note 6b)	67,109	(42,985)	24,124
Per Comprehensive Income and Expenditure Statement	**194,761**	**(69,951)**	**124,810**

The Authority manages and administers two public transport ticketing schemes in the West Midlands on behalf of bus, tram and rail operators. The nNetwork scheme is a ticketing scheme which allows holders of tickets to travel on bus, rail and tram services within the West Midlands.

The nBus & nBus/Metro schemes are ticketing schemes covering the majority of bus services within the West Midlands and the Midland Metro (tram).

The Authority receives revenues from ticket sales which are then pooled and distributed to operators net of commission based on passenger journeys. Net amounts to operators during the year amounted to £17.6m (2021: £9.6m). The lower amount experienced in 2021 was due to the decline in patronage resulting from the lockdown measures throughout 2020/21.

9. Combined Authority wider services

Analysis for 2021/22		**Authority**	
	Gross Expenditure £'000	**Gross Income** £'000	**Net Expenditure** £'000
Economy and Innovation	7,082	(5,488)	1,594
Environment & Energy, HS2	1,116	(773)	343
Culture and Digital	5,803	(5,593)	210
Public Service Reform and Social Economy	1,566	(671)	895
Wellbeing	1,357	(940)	417
Housing and Land	1,242	(1,242)	-
Inclusive Communities	67	-	67
Productivity and Skills	131,446	(129,665)	1,781
Business Support	2,729	(234)	2,495
Use of Reserves	(1,199)	-	(1,199)
As reported to management (note 6)	**151,209**	**(144,606)**	**6,603**
Adjustments to arrive at amounts chargeable to the General Fund	1,313	(14,394)	(13,081)
Adjustments between funding and accounting basis (note 6b)	29,279	(13,047)	16,232
Per Comprehensive Income and Expenditure Statement	**181,801**	**(172,047)**	**9,754**

Comparatives for 2020/21 (restated)		**Authority**	
	Gross Expenditure £'000	**Gross Income** £'000	**Net Expenditure** £'000
Economy and Innovation	3,134	(1,671)	1,463
Environment & Energy, HS2	1,147	(649)	498
Culture and Digital	1,693	(1,531)	162
Public Service Reform and Social Economy	1,258	(628)	630
Wellbeing	1,179	(629)	550
Housing and Land	1,386	(1,386)	-
Inclusive Communities	84	-	84
Productivity and Skills	129,727	(129,108)	619
Business Support	2,714	(193)	2,521
Use of Reserves	(420)	-	(420)
As reported to management (note 6)	**141,902**	**(135,795)**	**6,107**
Adjustments to arrive at amounts chargeable to the General Fund	1,044	(8,804)	(7,760)
Adjustments between funding and accounting basis (note 6b)	13,037	(9,354)	3,683
Per Comprehensive Income and Expenditure Statement	**155,983**	**(153,953)**	**2,030**

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

		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Adult Education Budget	**2021/22**	125,169	(125,169)	-
	2020/21	120,440	(120,440)	-

10. Investment Programme

Analysis for 2021/22		**Authority**	
	Gross Expenditure £'000	**Gross Income** £'000	**Net Expenditure** £'000
Revenue costs of project and programme delivery	5,195		5,195
Programme resource	2,951		2,951
Investment programme financing costs	39,106		39,106
Interest income	-	(1,569)	(1,569)
As reported to management (note 6)	**47,252**	**(1,569)**	**45,683**
Adjustments to arrive at amounts chargeable to the General Fund	(27,477)	1,569	(25,908)
Adjustments between funding and accounting basis (note 6b)	75,838	-	75,838
Per Comprehensive Income and Expenditure Statement	**95,613**	**-**	**95,613**

Comparatives for 2020/21		**Authority**	
	Gross Expenditure £'000	**Gross Income** £'000	**Net Expenditure** £'000
Revenue costs of project and programme delivery	4,858	-	4,858
Programme resource	2,291	-	2,291
Investment programme financing costs	38,260	-	38,260
Interest income	-	(1,303)	(1,303)
As reported to management (note 6)	**45,409**	**(1,303)**	**44,106**
Adjustments to arrive at amounts chargeable to the General Fund	(21,785)	1,303	(20,482)
Adjustments between funding and accounting basis (note 6b)	72,820	-	72,820
Per Comprehensive Income and Expenditure Statement	**96,444**	**-**	**96,444**

11. Mayor's office

Analysis for 2021/22	Authority		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Staff	719	-	719
Premises and services	37	-	37
Promotions, information and initiatives	1	-	1
Travel and subsistence	3	-	3
Grants and other contributions	-	(760)	(760)
As reported to management (note 6)	**760**	**(760)**	**-**
Adjustments to arrive at amounts chargeable to the General Fund	22	-	22
Adjustments between funding and accounting basis (note 6b)	-	-	-
Per Comprehensive Income and Expenditure Statement	**782**	**(760)**	**22**

Comparatives for 2020/21	Authority		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Staff	752	-	752
Premises and services	52	-	52
Promotions, information and initiatives	-	-	-
Travel and subsistence	3	-	3
Grants and other contributions	-	(807)	(807)
As reported to management (note 6)	**807**	**(807)**	**-**
Adjustments to arrive at amounts chargeable to the General Fund	(11)	-	(11)
Adjustments between funding and accounting basis (note 6b)	-	-	-
Per Comprehensive Income and Expenditure Statement	**796**	**(807)**	**(11)**

12. Mayoral elections

Analysis for 2021/22	Authority		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Postage, Printing and Office Supplies	757	-	757
Promotions, Information and Initiatives	98	-	98
Election Costs	2,263	-	2,263
Use of reserves	(3,118)	-	(3,118)
As reported to management (note 6)	-	-	-
Adjustments to arrive at amounts chargeable to the General Fund	3,118	-	3,118
Adjustments between funding and accounting basis (note 6b)	-	-	-
Per Comprehensive Income and Expenditure	**3,118**	**-**	**3,118**

13. Other operating expenditure

	Authority 2021/22 £'000	Group 2021/22 £'000	Authority 2020/21 £'000	Group 2020/21 £'000
Loss on disposal of property, plant and equipment	6,226	6,226	10	10
Share of disposal proceeds on asset funded from grant	-	-	(1,594)	(1,594)
Total	**6,226**	**6,226**	**(1,584)**	**(1,584)**

The loss on disposal of property, plant and equipment relates to the replacement of track between Bull Street and Corporation Street, the removal of historic signalling equipment and bus stops/shelters; and the replacement of Longbridge car park.

14. Financing and investment income and expenditure

	Authority 2021/22 £'000	Group 2021/22 £'000	Authority 2020/21 £'000	Group 2020/21 £'000
Interest payable and similar charges on borrowings:				
PWLB	6,610	6,610	5,596	5,596
Barclays	403	403	403	403
Other	12	12	-	-
Interest payable on the former transferred debt	304	304	431	431
Impairment loss allowance (notes 21, 23 and 34)	(319)	527	(704)	(266)
Net interest on the net defined benefit liability (note 32)	1,344	1,344	824	824
(Gains)/losses on financial assets at fair value through profit and loss	(230)	(230)	-	-
	8,124	8,970	6,550	6,988
Interest receivable and similar income	(1,111)	(1,070)	(672)	(635)
Other investment income	(1,569)	(1,569)	(1,303)	(1,303)
Total	**5,444**	**6,331**	**4,575**	**5,050**

Impairment loss allowance relates to potential losses recognised on the Collective Investment Fund and the loan to Midland Metro Limited, in accordance with the requirement of IFRS 9 Financial Instruments. The loss allowance includes consideration for the impact of COVID-19 (see notes 21 and 23).

Other investment income relates to the loan interest income from the Collective Investment Fund (see note 21).

15. Government and other grant income

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

	Authority	
	2021/22	**2020/21**
	£'000	£'000
Revenue grants and contributions credited to cost of services		
Active Travel Fund	1,027	-
Adult Education Budget	142,699	131,871
Bus Service Operator Grant	1,792	1,792
Bus Services Support Grant	793	4,280
Business and Tourism Programme	5,240	1,508
Commonwealth Games	5,279	1,503
Construction Skills	945	1,044
Digital Bootcamp	1,492	1,545
Employment Support Pilot	967	1,489
Housing Package	1,133	1,218
Local Transport Authority Bus Recovery	1,132	-
Made Smarter West Midlands	1,519	-
Mayoral Capacity Fund	1,000	1,000
Midlands Connect Programme	5,129	4,884
Sales, Fees & Charges Support Grant	391	1,606
UK Community Renewal Fund	1,744	-
Other grants and contributions less than £1m	3,321	6,363
Total	**175,603**	**160,103**
Capital grants funding Revenue Expenditure Funded from Capital under Statute credited to cost of services		
A45 Sprint	21,969	12,026
All-Electric Bus Town or City	11,111	10
Brownfield Housing	5,038	193
Bus Priority	5,617	-
Commonwealth Games	9,060	5,011
Future Mobility Zones	3,929	2,141
Getting Building	7,802	3,381
Land Fund	8,009	9,161
Local Growth Fund	144	8,666
Local Transport Fund	898	395
Transforming Cities Fund	29,555	4,373
Contributions from third parties	25,526	189
Other grants and contributions	6,794	6,793
Total	**135,452**	**52,339**

	Authority	
	2021/22	**2020/21**
	£'000	£'000
Grants and contributions credited to taxation and non-specific grant income		
Transport levy from the West Midlands districts*	114,720	114,720
Gainshare contribution - MHCLG	36,500	36,500
Business rates growth	9,000	7,500
Constituent, non-constituent and observers membership fees and contributions*	5,069	5,069
Capital grants and contributions	204,891	142,303
Gross income	370,180	306,092
Capital grants paid	(63,645)	(77,139)
Total	**306,535**	**228,953**

*An analysis of the transport levy and constituent and non-constituent member membership fees and contributions by district is shown in note 38 Related party disclosures.

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

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

	Authority	
	2021/22	2020/21
	£'000	£'000
Grants received in advance - capital		
Active Travel Fund	24,402	8,187
All-Electric Bus Town or City	38,880	49,990
Brownfield Housing	99,665	39,553
Bus Priority	18,348	23,965
Clean Bus Technology	247	786
Commonwealth Games	-	3,100
Future Mobility Zones	9,527	14,912
Getting Building	-	3,984
Joint Air Quality	162	412
Land Fund	63,478	77,316
Local Authority Major Project	55,873	36,689
Local Growth Fund	269	530
Local Transport Fund	7,415	7,378
Midlands Connect	2,000	2,000
Social Housing Decarbonisation	7,511	-
Transforming Cities Fund	57,221	60,003
Zero Emission Bus Regional Area	30,383	-
Contributions from third parties	7,292	6,000
Other grants less than £2m	1,436	2,335
	424,109	**337,140**
Grants received in advance - revenue		
Active Travel Fund	1,040	2,167
Bus Service Operator Grant	627	627
Cycle for Everyone	1,972	-
Employment Support Pilot	555	1,523
Housing Package	3,621	4,754
Intra-City Transport Settlements	3,862	-
Local Authority Capability Fund	1,841	-
Midlands Connect	4,047	1,785
UK Community Renewal Fund	1,625	-
Other	1,746	2,120
	20,936	**12,976**

16. Officers’ remuneration

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

		Salary, fees and allowances £'000	Pension contributions £'000	Total Authority £'000
WMCA Staff				
Chief Executive [1]	**2021/22**	233	26	259
	2020/21	200	25	225
Director of Law and Governance [2]	**2021/22**	22	2	24
	2020/21	96	12	108
Interim Director of Law and Governance [3]	**2021/22**	215	-	215
	2020/21	-	-	-
Executive Director of Housing, Property and Regeneration [4]	**2021/22**	119	15	134
	2020/21	118	15	133
Executive Director of Strategy, Integration and Net Zero [5]	**2021/22**	123	15	138
	2020/21	115	14	129
Executive Director of Economic Delivery, Skills and Communities [6]	**2021/22**	136	17	153
	2020/21	127	16	143
Operational Director of Strategic Communications [7]	**2021/22**	79	10	89
	2020/21	68	8	76
Director of Strategy [8]	**2021/22**	138	9	147
	2020/21	125	16	141
Executive Director of Finance & Business Hub [9]	**2021/22**	126	16	142
	2020/21	113	14	127
Executive Director, Transport for West Midlands [10]	**2021/22**	145	18	163
	2020/21	136	17	153
Mayoral Team				
Mayor	**2021/22**	79	-	79
	2020/21	79	-	79
Deputy Mayor [11]	**2021/22**	-	-	-
	2020/21	-	-	-
Chief of Staff [12]	**2021/22**	31	3	34
	2020/21	53	7	60
Head of Mayoral Operations [12]	**2021/22**	47	6	53
	2020/21	-	-	-
Head of Mayoral Policy & Delivery [12]	**2021/22**	64	8	72
	2020/21	-	-	-

[1] The role was held by two individuals during 2021/22. The current post holder, with an annualised salary of £169k for 2021/22, was appointed from the Executive Director, Transport for West Midlands role from June 2021.

[2] Director of Law and Governance resigned in May 2021. Therefore, the pay does not reflect a full year’s salary.

[3] The Interim Director of Law and Governance was employed in April 2021 through a third party. The amount disclosed is the amount that has been received by the postholder.

[4] The title of Director of Housing & Regeneration was renamed to Executive Director of Housing, Property and Regeneration with effect from 1 May 2022.

[5] The title of Director of Inclusive Growth & Public Service Reform was renamed to Executive Director of Strategy, Integration and Net Zero with effect from 1 May 2022.

[6] The title of Director of Productivity and Skills was renamed to Executive Director of Economy, Skills and Communities with effect from 1 May 2022.

[7] Director of Strategic Communications and Public Affairs resigned in October 2020. Therefore, the pay does not reflect a full year’s salary. This post was appointed in April 2021 and the title was renamed to Operational Director of Strategic Communications with effect from 1 May 2022.

[8] Director of Strategy resigned in October 2021. Therefore, the pay does not reflect a full year’s salary. The amount disclosed includes compensation for loss of office of £25k.

[9] The title of Finance Director was renamed to Executive Director of Finance & Business Hub with effect from 1 May 2022.

[10] The role was held by two individuals during 2021/22. The current post holder, with an annualised salary of £86k for 2021/22 was appointed from Director of Network Resilience, Transport for West Midlands role from July 2021. The title of Managing Director, Transport for West Midlands was renamed to Executive Director, Transport for West Midlands with effect from 1 May 2022.

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

[12] Chief of Staff resigned in July 2021 and the role was divided between Head of Mayoral Operations and Head of Mayoral Policy & Delivery effective August 2021. Therefore, the pay does not reflect a full year’s salary.

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

	Authority 2022	2021
£50,000 - £54,999	35	31
£55,000 - £59,999	41	32
£60,000 - £64,999	27	15
£65,000 - £69,999	22	23
£70,000 - £74,999	7	3
£75,000 - £79,999	11	7
£80,000 - £84,999	9	4
£85,000 - £89,999	1	2
£90,000 - £94,999	3	-
£95,000 - £99,999	1	-
£100,000 - £104,999	5	5
£105,000 - £109,999	1	-
£110,000 - £114,999	1	4
£115,000 - £119,999	1	-
£120,000 - £124,999	-	1
£125,000 - £129,999	2	-
£130,000 - £139,999*	-	-
£140,000 - £144,999	-	1

* there were no employees within these bands

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

	Compulsory redundancies		Total exit packages		Total cost of packages in each band	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Cost band (including special payments)	No.	No.	No.	No.	£'000	£'000
£0 - £20,000	16	9	16	9	**69**	**47**
£20,001 - £40,000	1	1	1	1	**27**	**33**
£40,001 - £60,000	1	-	1	-	**57**	**-**
£60,001 - £80,000	-	-	-	-	**-**	**-**
£80,001 - £100,000	-	1	-	1	**-**	**99**
	18	**11**	**18**	**11**	**153**	**179**

17. Members' allowances

	Authority and Group	
	2022	**2021**
	£'000	£'000
Allowances	125	127
Expenses	-	-
Total	**125**	**127**

18. External audit costs

Charges relating to work undertaken by the external auditors:

	Authority	**Group**	**Authority**	**Group**
	2022	**2022**	**2021**	**2021**
	£'000	£'000	£'000	£'000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	68	99	67	98
Fees payable in respect of other services provided by external auditors during the year	-	-	-	-
Total	**68**	**99**	**67**	**98**

19. Property, plant and equipment

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

Assets under construction largely consists of expenditure on the construction of the Midland Metro extension.

In light of the recent issues with the trams, a full review of the asset lives and impairment was undertaken with the manufacturer. There are no indications of impairment and there is no change to their useful lives.

Movements in 2021/22 Authority	Land and buildings	Vehicles, plant and equipment	Infra-structure assets	Assets under construction	Total Authority
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2021	3,559	44,880	439,722	206,417	694,578
Additions - capital programme (note 31)	-	3,320	7,083	134,162	144,565
Transfers	361	8,420	25,634	(34,415)	-
Transfers to intangible assets (note 20)	-	-	-	(255)	(255)
Transfers to provision of services	-	-	-	(817)	(817)
Disposals	-	(3,994)	(17,256)	-	(21,250)
At 31 March 2022	**3,920**	**52,626**	**455,183**	**305,092**	**816,821**
Accumulated depreciation					
At 1 April 2021	174	29,333	181,279	-	210,786
Charge for the year	87	3,764	17,313	-	21,164
Disposals	-	(3,940)	(11,084)	-	(15,024)
At 31 March 2022	**261**	**29,157**	**187,508**	**-**	**216,926**
Net book value					
At 31 March 2022	3,659	23,469	267,675	305,092	599,895
At 31 March 2021	3,385	15,547	258,443	206,417	483,792

Group	Land and buildings	Vehicles, plant and equipment	Infra-structure assets	Assets under construction	Total Group
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2021	3,559	45,507	439,722	206,417	695,205
Additions - capital programme (note 31)	-	3,320	7,083	134,162	144,565
Additions - other	-	201	-	-	201
Transfers	361	8,420	25,634	(34,415)	-
Transfers to intangible assets (note 20)	-	-	-	(255)	(255)
Transfers to provision of services	-	-	-	(817)	(817)
Disposals	-	(3,994)	(17,256)	-	(21,250)
At 31 March 2022	**3,920**	**53,454**	**455,183**	**305,092**	**817,649**
Accumulated depreciation					
At 1 April 2021	174	29,708	181,279	-	211,161
Charge for the year	87	3,870	17,313	-	21,270
Disposals	-	(3,940)	(11,084)	-	(15,024)
At 31 March 2022	**261**	**29,638**	**187,508**	**-**	**217,407**
Net book value					
At 31 March 2022	3,659	23,816	267,675	305,092	600,242
At 31 March 2021	3,385	15,799	258,443	206,417	484,044

Comparative movements in 2020/21 Authority	Land and buildings	Vehicles, plant and equipment	Infra-structure assets	Assets under construction	Total Authority
	£'000	£'000	£'000	£'000	£'000
Cost or valuation `					
At 1 April 2020	3,559	39,465	432,602	126,849	602,475
Additions - capital programme (note 31)	-	3,637	5,263	84,638	93,538
Transfers	-	1,778	2,191	(3,969)	-
Transfers to intangible assets (note 20)	-	-	-	(584)	(584)
Transfers to provision of services	-	-	-	(517)	(517)
Disposals	-	-	(334)	-	(334)
At 31 March 2021	**3,559**	**44,880**	**439,722**	**206,417**	**694,578**
Accumulated depreciation					
At 1 April 2020	87	26,793	164,709	-	191,589
Charge for the year	87	2,540	16,894	-	19,521
Disposals	-	-	(324)	-	(324)
At 31 March 2021	**174**	**29,333**	**181,279**	**-**	**210,786**
Net book value					
At 31 March 2021	3,385	15,547	258,443	206,417	483,792
At 31 March 2020	3,472	12,672	267,893	126,849	410,886

Group	Land and buildings	Vehicles, plant and equipment	Infra-structure assets	Assets under construction	Total Group
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2020	3,559	40,063	432,602	126,849	603,073
Additions - capital programme (note 31)	-	3,637	5,263	84,638	93,538
Additions - other	-	29	-	-	29
Transfers	-	1,778	2,191	(3,969)	-
Transfers to intangible assets (note 20)	-	-	-	(584)	(584)
Transfers to provision of services	-	-	-	(517)	(517)
Disposals	-	-	(334)	-	(334)
At 31 March 2021	**3,559**	**45,507**	**439,722**	**206,417**	**695,205**
Accumulated depreciation					
At 1 April 2020	87	27,033	164,709	-	191,829
Charge for the year	87	2,675	16,894	-	19,656
Disposals	-	-	(324)	-	(324)
At 31 March 2021	**174**	**29,708**	**181,279**	**-**	**211,161**
Net book value					
At 31 March 2021	3,385	15,799	258,443	206,417	484,044
At 31 March 2020	3,472	13,030	267,893	126,849	411,244

Revaluations

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

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

Authority	**Land and buildings**	**Vehicles, plant and equipment**	**Infra-structure assets**	**Assets under construction**	**Total Authority**
	£'000	£'000	£'000	£'000	£'000
Carried at historical cost	-	-	-	305,092	305,092
Carried at depreciated historical cost	-	52,626	455,183	-	507,809
Valued at current value as at:					
31 March 2022					-
31 March 2021	-	-	-	-	-
31 March 2020	-	-	-	-	-
31 March 2019	3,920	-	-	-	3,920
31 March 2018	-	-	-	-	-
31 March 2017	-	-	-	-	-
Total cost or valuation	**3,920**	**52,626**	**455,183**	**305,092**	**816,821**

Capital commitments

At 31 March 2022, the Authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment and future years budgeted to cost £37.8m (2021: £53.8m). The major commitments are listed in the table below:

	2022	**2021**
	£'000	£'000
Metro Third Generation Trams	31,494	42,474
Metro extension schemes	6,338	8,220
West Midlands Cycle Hire scheme	-	3,128
	37,832	**53,822**

20. Intangible assets

	Authority and Group 2022 £'000	Authority and Group 2021 £'000
Cost		
At 1 April	1,992	-
Additions - capital programme (note 31)	699	1,408
Transfers from assets under construction (note 19)	255	584
At 31 March	**2,946**	**1,992**
Amortisation		
At 1 April	398	-
Amortisation for the year	637	398
At 31 March	**1,035**	**398**
Net carrying amount		
At 31 March	1,911	1,594

The intangible assets are internally generated assets. The carrying amount of the intangible assets is amortised over 5 years on a straight-line basis. The amortisation is charged to the transport service in the Comprehensive Income and Expenditure Statement.

21. Investments

					Authority and Group	
	Long-term		Current		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Loans investments - Collective Investment Fund	16,157	8,074	5,334	13,390	21,491	21,464
Loss allowance	(2,714)	(1,433)	(238)	(992)	(2,952)	(2,425)
Loans investments - Collective Investment Fund	13,443	6,641	5,096	12,398	18,539	19,039
Investments in subsidiaries and joint ventures	3,673	-	-	-	3,673	-
Pooled investment funds	5,230	-	-	-	5,230	-
Short-term deposits	-	-	247,123	105,700	247,123	105,700
Total	**22,346**	**6,641**	**252,219**	**118,098**	**274,565**	**124,739**

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

The loss allowance is assessed on an individual basis (see accounting policy - note 2 (g)) and recognised in the Comprehensive Income and Expenditure (see note 14).

Investments in subsidiaries and joint ventures mainly consist of the equity investments in HTO1 LLP and HTO2 LLP. Further details on these investments are set out on page 88 and in note 34 on page 106.

The pooled investment funds consisted of CCLA Local Authority Property Fund and Fundamentum Social Housing REIT.

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

	Ownership	Share capital	Nature of business
Midlands Development Capital Limited	100%	£100	Dormant
Midland Metro Limited	100%	£100	Trading
Network West Midlands Limited	100%	£100	Dormant
West Midlands Development Capital Limited	100%	£100	Trading
WM5G Limited	100%	n/a - limited by guarantee	Trading
West Midlands Growth Company Limited	5%	n/a - limited by guarantee	Trading
West Midlands Rail Limited	50%	n/a - limited by guarantee	Trading
HTO Group (HTO1/HTO2 LLP)	44%	n/a - limited liability partnership	Trading

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

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

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

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

WM5G Limited was incorporated under the Companies Act 2006 as a private limited company (limited by guarantee) on 26 February 2019.

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

HTO1 LLP was incorporated under the Limited Liability Partnerships Act 2000 on 3 March 2021. This entity is jointly owned by City of Wolverhampton Council and the Authority with each member having equal voting rights.

HTO2 LLP was incorporated under the Limited Liability Partnerships Act 2000 on 9 March 2021. This entity is owned by HTO1 LLP, City of Wolverhampton Council and the Authority with each member having equal voting rights.

22. Inventories

		2022		2021
	Authority	Group	Authority	Group
	£'000	£'000	£'000	£'000
Balance at 1 April	13,082	13,904	12,424	13,253
Purchases	1,290	1,821	658	1,221
Recognised as an expense in the year	(5,905)	(6,307)	-	(570)
Balance at 31 March	**8,467**	**9,418**	**13,082**	**13,904**

23. Short-term debtors

		2022		2021
	Authority	Group	Authority	Group
	£'000	£'000	£'000	£'000
Loans to group undertakings	346	-	1,192	-
Loss allowance	(346)	-	(1,192)	-
Loans to group undertakings	-	-	-	-
Trade debtors and accrued income	42,119	46,000	36,441	38,177
Other debtors	10,561	10,586	4,521	4,636
Prepayments	14,068	14,299	8,752	9,188
Total	**66,748**	**70,885**	**49,714**	**52,001**

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

The loss allowance relates to potential losses recognised in the Comprehensive Income and Expenditure (see note 14) for the impact of COVID-19.

24. Cash and cash equivalents

				Carrying amount
		2022		2021
	Authority	Group	Authority	Group
	£'000	£'000	£'000	£'000
Cash at bank and in hand	465	701	1,813	2,102
Short-term deposits	369,038	370,388	142,600	146,600
Total	**369,503**	**371,089**	**144,413**	**148,702**

25. Borrowing

	Authority and Group	
	2022	2021
	£'000	£'000
Lender		
Public Works Loan Board (PWLB)	431,991	108,431
Barclays	10,000	10,000
UK Infrastructure Bank	10,000	-
Accrued interest payable	2,561	1,572
Total	**454,552**	**120,003**
Maturity		
Principal and accrued interest due within one year	15,319	1,925
1 - 2 years	25,563	368
2 - 5 years	38,464	1,193
5 - 10 years	111,537	12,326
Over 10 years	263,668	104,191
Principle due after more than one year	439,232	118,078
Total	**454,551**	**120,003**

The Group adopts a low risk treasury management approach seeking to maximise low interest loans when the opportunity arises. During the year, the Group undertook £47m of short-term borrowing which was repaid in year (2021: nil). The amount of fixed rate debt is 100% (2021: 100%) with no variable rate debt (2021: nil).

Historically, the majority of Group borrowing has been undertaken through HM Treasury's lending facility (i.e. Public Works Loan Board (PWLB)). In November 2020, PWLB reduced the margin on its standard loans by 1% reversing a policy decision made a year earlier aimed at slowing the pace of borrowing by Local Authorities. As such, the Authority continues to review all options to obtain competitively priced debt to fund its Capital programme.

Following the rate reduction, the Group is able to access PWLB debt at 80 basis points above the UK Gilt rate. Loans totalling £125m were secured from this source in 2021/22 to unwind the Group's previously under borrowed position and provide low interest rate funding prior to bank rate rises during the year. In addition, through a competitive bidding process, the Group also accessed £200m of PWLB borrowing during 2021/22 at the Governments Local Infrastructure Rate (Gilts + 60 basis points) and a further £10m of borrowing from the UK Infrastructure Bank at an equivalent rate.

In order to mitigate against the cost of rising interest rates the Authority has set up a forward rate borrowing facility with Phoenix Group who will provide lending up to £100m at a predetermined fixed rate. This is the first deal of this kind to be executed by the Authority and reduces the interest rate risk the Authority is exposed to in delivery of the WMCA Investment Programme. The funding is expected to be called down by August 2023.

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

26. Short-term creditors

	2022 Authority	 Group	2021 Authority	 Group
	£'000	£'000	£'000	£'000
Trade creditors and accruals	115,065	119,687	106,054	110,031
Taxes and social security	1,102	1,925	845	1,057
Payments received on account	5,385	5,525	4,961	5,061
	121,552	**127,137**	**111,860**	**116,149**

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

27. Provisions

Current year movements	**Transport development**	**Buildings maintenance**	**Rail services/ insurance**	**Total Authority and Group**
	£'000	£'000	£'000	£'000
Balance at 1 April 2021	2,071	1,224	1,010	4,305
Additional provision	-	384	219	603
Amounts used	(60)	-	-	(60)
Balance at 31 March 2022	**2,011**	**1,608**	**1,229**	**4,848**
Current	2,011	-	-	2,011
Long-term	-	1,608	1,229	2,837
Total	**2,011**	**1,608**	**1,229**	**4,848**

Prior year comparatives	**Transport development**	**Buildings maintenance**	**Rail services/ insurance**	**Total Authority and Group**
	£'000	£'000	£'000	£'000
Balance at 1 April 2020	933	1,000	810	2,743
Additional provision	1,182	224	200	1,606
Amounts used	(44)	-	-	(44)
Balance at 31 March 2021	**2,071**	**1,224**	**1,010**	**4,305**
Current	2,071	-	-	2,071
Long-term	-	1,224	1,010	2,234
Total	**2,071**	**1,224**	**1,010**	**4,305**

Transport development

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

Buildings maintenance

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

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

28. Transferred debt

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

	Authority and Group	
	2022	**2021**
	£'000	£'000
Balance at 1 April	5,660	6,428
Accrued interest payable - brought forward	(65)	-
Repayment in the year - principal	(916)	(833)
Accrued interest payable - carried forward	65	65
Balance at 31 March	**4,744**	**5,660**
Due within one year	1,074	982
Due over one year	3,670	4,678
Total	**4,744**	**5,660**

29. Usable reserves

The purpose of the individual reserves are as follows:

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

Earmarked Reserves

Current year movements
Authority

	Earmarked general fund Authority	Investment programme funding reserve Authority	Unapplied revenue grants Authority	Total Authority
	£'000	£'000	£'000	£'000
Balance at 1 April 2021	41,019	114,575	28,102	183,696
Receivable in year	-	-	145,820	145,820
Utilised in year	-	-	(129,639)	(129,639)
Net unapplied in year	-	-	16,181	16,181
Released in year to general reserves	(19,877)	(41,462)	-	(61,339)
Transfers in year from general reserves	35,435	45,683	-	81,118
Net transfer (to)/from general reserves	15,558	4,221	-	19,779
Total transfer (to)/from general reserves	**15,558**	**4,221**	**16,181**	**35,960**
Balance at 31 March 2022	**56,577**	**118,796**	**44,283**	**219,656**

Group

	Earmarked general fund	Investment programme funding reserve	Unapplied revenue grants	Total Group
	£'000	£'000	£'000	£'000
Balance at 1 April 2021	42,211	115,912	28,102	186,225
Receivable in year	-	-	145,820	145,820
Utilised in year	-	-	(129,639)	(129,639)
Net unapplied in year	-	-	16,181	16,181
Released in year to general reserves	(20,723)	(41,462)	-	(62,185)
Transfers in year from general reserves	35,435	45,450	-	80,885
Net transfer (to)/from general reserves	14,712	3,988	-	18,700
Total transfer (to)/from general reserves	**14,712**	**3,988**	**16,181**	**34,881**
Balance at 31 March 2022	**56,923**	**119,900**	**44,283**	**221,106**

Prior year comparatives
Authority

	Earmarked general fund	Investment programme funding reserve	Unapplied revenue grants	Total Authority
	£'000	£'000	£'000	£'000
Balance at 1 April 2020	26,637	101,125	18,795	146,557
Receivable in year	-	-	137,075	137,075
Utilised in year	-	-	(127,768)	(127,768)
Net unapplied in year	-	-	9,307	9,307
Released in year to general reserves	(7,411)	(32,226)	-	(39,637)
Transfers in year from general reserves	21,793	45,676	-	67,469
Net transfer (to)/from general reserves	14,382	13,450	-	27,832
Total transfer (to)/from general reserves	**14,382**	**13,450**	**9,307**	**37,139**
Balance at 31 March 2021	**41,019**	**114,575**	**28,102**	**183,696**

Group	Earmarked general fund	Investment programme funding reserve	Unapplied revenue grants	Total Group
	£'000	£'000	£'000	£'000
Balance at 1 April 2020	28,267	102,830	18,795	149,892
Receivable in year	-	-	137,075	137,075
Utilised in year	-	-	(127,768)	(127,768)
Net unapplied in year	-	-	9,307	9,307
Released in year to general reserves	(7,849)	(32,226)	-	(40,075)
Transfers in year from general reserves	21,793	45,308	-	67,101
Net transfer (to)/from general reserves	13,944	13,082	-	27,026
Total transfer (to)/from general reserves	**13,944**	**13,082**	**9,307**	**36,333**
Balance at 31 March 2021	**42,211**	**115,912**	**28,102**	**186,225**

Earmarked general fund

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

Investment programme funding reserve

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

Unapplied revenue grants

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

Capital Receipts Reserve

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

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	1,841	247
Share of disposal proceeds of asset funded from the Brownfield Land & Property Development Fund	-	1,594
Transfer to the Capital Receipts Reserve upon receipt of cash from loan repayments under Collective Investment Fund	27,971	11,931
Use of the Capital Receipts Reserve to finance capital expenditure	(27,971)	(11,931)
Closing balance at 31 March	**1,841**	**1,841**

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

	Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	-	-
In-year profit/(loss) results for subsidiaries, adjusted for Group accounting policies and elimination of intra-group transactions	(14)	-
Closing balance at 31 March	**(14)**	**-**

30. Unusable reserves

The purpose of the individual reserves are as follows:

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

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

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	6,319	6,531
Difference between current value depreciation and historical cost	(193)	(212)
Closing balance at 31 March	**6,126**	**6,319**

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

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

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	57,222	83,928
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and amortisation of non-current assets (notes 19 and 20)	(21,801)	(19,919)
Adjusting amount written out of the Revaluation Reserve (note 30)	193	212
Loss on disposal of property, plant and equipment (note 13)	(6,226)	(10)
Non-current assets transferred to provision of services (note 19)	(817)	(517)
Inventory recognised as an expense (note 22)	(5,905)	-
Revenue expenditure funded from capital under statute (note 31)	(236,484)	(142,536)
Capital financing applied in the year		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing (note 31)	266,496	116,258
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing in prior years	10,202	1,245
Statutory provision for the financing of capital investment charged against the General Fund (MRP - note 31)	2,336	400
Debt repayment charged against the General Fund (note 28)	916	833
Capital expenditure charged against the General Fund (note 31)	8,239	1,715
Capital expenditure funded by the Gainshare contribution (note 31)	9,895	15,613
Closing balance at 31 March	**84,266**	**57,222**

Financial Instruments Revaluation Reserve

The financial instruments revaluation reserve contains the gains or losses made by the Authority arising from the increase or decrease in the value of its investments that are measured at fair value through other comprehensive income and fair value through profit or loss.

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	-	-
Upward revaluation of investments	230	-
Accumulated gains or losses on equity investments designated at fair value through other comprehensive income	(877)	-
Closing balance at 31 March	**(647)**	**-**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. This account is used by the Authority for recognised losses on loans advanced at less than commercial interest rate. These values are debited or credited to the Comprehensive Income and Expenditure Statement when they are incurred but reversed out from the General Fund balance to this account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on account at 31 March 2022 will be charged to the General Fund over the next 11 years.

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	2,388	-
Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(311)	2,388
Closing balance at 31 March	**2,077**	**2,388**

Pensions Reserve

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

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	66,270	39,902
Remeasurements (liabilities and assets) (note 32)	(35,194)	20,118
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement (note 32)	16,788	9,334
Employer's pension contributions payable in the year:		
Current year (note 32)	(3,588)	(3,084)
Closing balance at 31 March	**44,276**	**66,270**

Accumulated Absences Account

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

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	1,030	496
Movement in the year	108	534
Closing balance at 31 March	**1,138**	**1,030**

31. Capital expenditure and capital financing

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

		Authority
	2022	**2021**
	£'000	£'000
WMCA delivered capital schemes		
Midland Metro	131,077	86,207
Rail infrastructure	54,952	21,960
Key Routes network	46,721	18,927
Bus infrastructure	13,500	2,641
Land Fund	22,061	18,767
Future Transport Zone	2,624	3,024
Connected vehicles	613	6,972
Regional Transport Coordination Centre	4,440	2,601
Sustainable Transport	3,837	2,611
Other	14,345	4,487
	294,170	168,197
Grants to local authorities	88,869	69,943
Investments in equity instruments	4,550	-
Total capital expenditure	**387,589**	**238,140**
Property, plant and equipment (note 19)	144,566	93,538
Intangible asset (note 20)	699	1,408
Inventories (note 22)	1,290	658
Investments in equity instruments (note 21)	4,550	-
REFCUS	236,484	142,536
	387,589	**238,140**
Funded by:		
Central Government grants	231,252	107,168
District/Local Enterprise Partnership (LEP) grants and contributions	9,413	9,004
3rd party contributions	25,831	86
Total grants and contributions	266,496	116,258
Gainshare contribution	9,895	15,613
Borrowing	111,198	106,269
	387,589	**238,140**

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

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening Capital Financing Requirement	472,555	347,731
Capital investment		
Capital programme costs funded by borrowing (note 31)	111,198	106,269
Other capital expenditure funded by borrowing - Collective Investment Fund	26,484	16,679
Other capital expenditure funded by borrowing - soft loan	-	18,000
Sources of finance		
Minimum Revenue Provision (MRP)	(2,336)	(400)
Use of the Capital Receipts Reserve to finance capital expenditure (note 29)	(27,971)	(11,931)
Transferred debt repayment (note 28)	(916)	(833)
Capital expenditure charged to the General Fund	(8,239)	(1,715)
Capital grants received previously funded through borrowings	(10,202)	(1,245)
Closing Capital Financing Requirement	**560,573**	**472,555**
Explanation of movement in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	88,018	124,824
Increase in Capital Financing Requirement	**88,018**	**124,824**

32. Pension schemes

Defined benefit pension scheme

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

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

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

An actuarial valuation of this fund was carried out by Barnett Waddingham LLP, an independent firm of actuaries in accordance with the Regulations as at 31 March 2019. Based on the results of this valuation, the actuaries set the Authority's employer contributions for the three years from 1 April 2020 at a net primary rate of 12.4% of the current employees' pensionable pay to meet 100% of the overall fund liabilities. This pension cost has been determined after allowing for the amortisation of the difference between the assets and the accrued liabilities relating to the Authority over the average remaining service lives of the current members of the fund.

In April 2020 a prepayment of employer's contributions of £9.739m was made for the three years to 2022/23 to take advantage of discounts available.

Hymans Robertson LLP was appointed as the new actuary on 1 January 2022, replacing Barnett Waddingham LLP. Disclosures in this note are taken from the actuarial report provided by Hymans Robertson LLP.

Following the recent McCloud and Sargeant judgement which relate to age discrimination within the Judicial and Fire Pension Schemes respectively, an allowance was made in 2018/19 for the estimated potential impact on the employer's defined benefit obligation based on analysis carried out by the Government Actuary's Department (GAD) and the employer's liability profile. Following government confirmation in a statement by the Chief Secretary to the Treasury on 15 July 2019 that the principles of the outcome would be accepted as applying to all public service schemes, this allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities. No explicit additional adjustment for McCloud has been added to the current service cost for 2021/22.

On the High Court's recent ruling on the equalisation of Guaranteed Minimum Pension (GMP) between genders, the impact of the full GMP indexation has been allowed for in the calculation of the latest funding valuation. WMCA's funding valuation results are used as a starting point for the accounting roll forward calculations and therefore an allowance for full GMP indexation has already been included in the accounting disclosure.

The further ruling on historical transfers is unlikely to have a significant impact on pension obligations and therefore no allowance has been made for this within calculations as at 31 March 2022.

Calculation method

The figures as at 31 March 2022 are based on the 31 March 2019 formal valuation of the fund. Membership data as at 31 March 2019 was used to develop current funding requirements. Liabilities are based on benefit payment and contribution information provided by the fund's administrator as at 31 March 2022. This valuation was carried out by Hymans Robertson LLP.

Net liability and pension reserve

The net amount recognised on the Balance Sheet at 31 March 2022 is a deficit of £41.150m compared to a deficit of £59.603m at 31 March 2021. The deficit has been reduced by the prepayment of £3.126m for 2022/23. As a result, the pension liability does not agree to the pension reserve by that amount.

Movement in pension fund liability during the year

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	59,603	39,902
Employer's pension contributions payable in the year:		
Current year	(3,588)	(3,084)
Prepayment for 2020/21 and 2021/22	3,541	(6,667)
Post employment benefit charged to the surplus or deficit on provision of services:		
Current service cost*	15,414	8,503
Past service cost	30	7
Net interest cost	1,344	824
Total cost	16,741	(417)
Remeasurements (liabilities and assets)	(35,194)	20,118
Closing balance at 31 March	**41,150**	**59,603**

Transactions relating to post-employment benefits

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

	Authority and Group	
	2022	**2021**
	£'000	£'000
Comprehensive Income and Expenditure Statement		
Cost of services		
Current service cost*	15,414	8,503
Past service cost	30	7
Financing and investment income and expenditure		
Net interest cost	1,344	824
Total post employment benefit charged to the surplus or deficit on provision of services	**16,788**	**9,334**
Remeasurements (liabilities and assets)	(35,194)	20,118
Total post employment benefit charged/(credited) to the Comprehensive Income and Expenditure Statement	**(18,406)**	**29,452**
Movement in Reserves Statement		
Reversal of net charges made to the surplus or deficit on provision of services for post employment benefits in accordance with the Code	(16,788)	(9,334)
Actual amount charged against the General Fund Balance for pensions in the year	3,588	3,084
	(13,200)	**(6,250)**

* Administration expenses are now included in ‘Current service cost’, previously they were disclosed separately. The prior year comparative has been amended to reflect this change.

Assets and liabilities in relation to post-employment benefits

	Authority and Group	
	2022	**2021**
	£'000	£'000
Present value of scheme liabilities	(355,735)	(355,122)
Present value of scheme assets	314,585	295,519
Amounts recognised as liabilities	**(41,150)**	**(59,603)**

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

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	355,122	289,789
Current service cost	15,414	8,325
Interest cost	7,169	6,671
Change in demographic assumptions*	(2,517)	(4,119)
Change in financial assumptions	(12,031)	70,720
Experience (gain)/loss on defined benefit obligations	815	(4,380)
Contributions by scheme participants	2,134	1,843
Benefits paid	(10,401)	(13,734)
Past service costs/curtailments	30	7
Closing balance at 31 March	**355,735**	**355,122**

***** the change in demographic assumptions can be found in the valuation assumptions on page 103

Reconciliation of fair value of the scheme assets

	Authority and Group	
	2022	**2021**
	£'000	£'000
Opening balance at 1 April	295,519	249,887
Interest on plan assets	5,825	5,847
Administration expenses*	-	(178)
Return on assets less interest	21,461	42,103
Employer contributions - current year	3,588	3,084
Employer contributions - prepayment for 2020/21 and 2021/22	(3,541)	6,667
Contributions by scheme participants	2,134	1,843
Benefits paid	(10,401)	(13,734)
Closing balance at 31 March	**314,585**	**295,519**

***** Administration expenses for 2021/22 are included in ‘Current service cost’ within ‘Reconciliation of present value of the scheme liabilities (defined benefit obligation)’

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

Authority	**2022** %	**2022** £'000	**2021** %	**2021** £'000
Asset				
Equities	60.6	190,779	60.2	177,994
Gilts	6.2	19,471	8.3	24,597
Other bonds	5.8	18,300	6.3	18,744
Property	7.2	22,563	7.5	22,175
Cash/liquidity	3.9	12,354	4.9	14,448
Other*	16.3	51,118	12.8	37,561
Total	**100.0**	**314,585**	**100.0**	**295,519**

* mainly consists of infrastructure, other debt securities and derivatives

Basis for estimating assets and liabilities

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

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

	2022	**Authority** **2021**
Valuation assumptions		
Discount rate	2.7%	2.0%
Rate of salary increase	4.3%	3.9%
Rate of pension increase	3.3%	2.9%
Future life expectancies from age 65		
Retiring today:		
Males	21.2	21.6
Females	23.6	23.9
Retiring in 20 years:		
Males	22.9	23.4
Females	25.4	25.8

It is assumed that:

- members will elect to take 50% of both the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and for post-April 2008 service;
- members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- the proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

Defined Contribution Pension Scheme – Midland Metro Limited and WM5G Limited

Income Statement

The amounts recognised in Midland Metro's Income Statement and consolidated into the Group Comprehensive Income and Expenditure Statement are £182k (2021: £164k).

The amounts recognised in WM5G Limited's Income Statement and consolidated into the Group Comprehensive Income and Expenditure Statement are £57k (2021: £50k).

33. Financial risk management

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

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

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

Credit risk

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

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

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

	Authority	**Group**	**Authority**	**Group**
	2021/22	**2021/22**	**2020/21**	**2020/21**
	£'000	£'000	£'000	£'000
12-month expected credit losses:				
Investments (note 21)	265,662	274,565	124,739	124,739
Cash and short-term deposits (note 24)	369,503	371,089	144,413	148,702
Pooled investment funds (note 21)	5,230	5,230	-	-
	640,395	650,884	269,152	273,441
Simplified approach:				
Trade debtors and accrued income (note 23)	42,119	46,000	36,441	38,177
Total	**682,514**	**696,884**	**305,593**	**311,618**

The loss allowance recognised during the year are as follows:

Authority	**12-month expected credit losses**		**Lifetime expected credit losses - simplified**		**Total**	
Asset class (amortised cost)	**2021/22**	**2020/21**	**2021/22**	**2020/21**	**2021/22**	**2020/21**
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance as at 1 April	3,617	4,321	-	-	3,617	4,321
Individual financial assets transferred to 12-month expected credit loss	(319)	(704)	-	-	(319)	(704)
Individual financial assets transferred to lifetime expected credit losses	-	-	-	-	-	-
Closing balance at 31 March	**3,298**	**3,617**	**-**	**-**	**3,298**	**3,617**

Group	**12-month expected credit losses**		**Lifetime expected credit losses - simplified**		**Total**	
Asset class (amortised cost)	**2021/22**	**2020/21**	**2021/22**	**2020/21**	**2021/22**	**2020/21**
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance as at 1 April	2,425	2,691	-	-	2,425	2,691
Individual financial assets transferred to 12-month expected credit loss	527	(266)	-	-	527	(266)
Individual financial assets transferred to lifetime expected credit losses	-	-	-	-	-	-
Closing balance at 31 March	**2,952**	**2,425**	**-**	**-**	**2,952**	**2,425**

Liquidity risk

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

Market risk

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

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

Coronavirus

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

With respect to the commercial loans, the Authority is continually reviewing the impacts on the construction sector and the potential impact on its loan portfolio. Provision has been made in the 2021/22 accounts for potential defaults and the Authority will continue to maintain a close dialogue with borrowers through its sector specialist fund manager. In the event that any of the investments encounter difficulty, each will be managed on a case by case basis and if necessary, the Authority's rights over control of the development or assets will be exercised.

Maturity analysis of financial liabilities
All trade and other payables are due to be paid in less than one year.

34. Financial Instruments

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

Analysis for 2021/22	Long-term		Current		Total	
	Authority	Group	Authority	Group	Authority	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets at amortised cost						
Investments (note 21)	13,443	13,443	252,219	252,219	265,662	265,662
Long-term debtors	16,159	16,159	-	-	16,159	16,159
Short-term debtors (note 23)	-	-	42,119	46,000	42,119	46,000
Cash and cash equivalents (note 24)	-	-	369,503	371,089	369,503	371,089
Financial assets at fair value through other comprehensive income						
Investments in subsidiaries and joint ventures (note 21)	3,673	3,673	-	-	3,673	3,673
Financial assets at fair value through profit or loss						
Pooled investment funds (note 21)	5,230	5,230	-	-	5,230	5,230
Total financial assets	**38,505**	**38,505**	**663,841**	**669,308**	**702,346**	**707,813**
Financial liabilities at amortised cost						
Borrowings (note 25)	439,232	439,232	15,319	15,319	454,551	454,551
Short-term creditors (note 26)	-	-	115,065	119,687	115,065	119,687
Transferred debt (note 28)	3,670	3,670	1,074	1,074	4,744	4,744
Total financial liabilities	**442,902**	**442,902**	**131,458**	**136,080**	**574,360**	**578,982**

Comparatives for 2020/21	**Long-term**		**Current**		**Total**	
	Authority	**Group**	**Authority**	**Group**	**Authority**	**Group**
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets at amortised cost						
Investments (note 21)	6,641	6,641	118,098	118,098	124,739	124,739
Long-term debtors	15,951	15,951	-	-	15,951	15,951
Short-term debtors (note 23)	-	-	36,441	38,177	36,441	38,177
Cash and cash equivalents (note 24)	-	-	144,413	148,702	144,413	148,702
Total financial assets	**22,592**	**22,592**	**298,952**	**304,977**	**321,544**	**327,569**
Financial liabilities at amortised cost						
Borrowings (note 25)	118,078	118,078	1,925	1,925	120,003	120,003
Short-term creditors (note 26)	-	-	106,054	110,031	106,054	110,031
Transferred debt (note 28)	4,678	4,678	982	982	5,660	5,660
Total financial liabilities	**122,756**	**122,756**	**108,961**	**112,938**	**231,717**	**235,694**

Material soft loans made by the Authority

The Authority made a loan to Coventry City Council for the construction of the UK Battery Industrialisation Centre in 2020/21. This loan is deemed to be a material soft loan and matures in 2033. Notional interest is charged quarterly and the interest will only become payable if the total accumulated interest added to the outstanding loan balance in aggregate exceeds the agreed interest payment trigger as stipulated in the loan agreement.

The treatment of soft loans in the financial statements is as follows:

	Authority	
	2021/22	**2020/21**
	£'000	£'000
Opening balance as at 1 April	15,612	-
Nominal value of new loans granted in the year	-	18,000
Fair value adjustment of new loan	-	(2,595)
Interest credited to Financing and Investment Income and Expenditure	311	207
Closing balance at 31 March	**15,923**	**15,612**
Nominal value at 31 March	18,000	18,000

Valuation assumptions

The interest rate at which the fair value of this soft loan has been made is arrived at by taking the Authority’s prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid by Coventry City Council, in this case a zero rate.

Income, Expense, Gains and Losses

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

Authority	2021-22					2020-21				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial liabilities at amortised cost	Total Authority	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial liabilities at amortised cost	Total Authority
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net (gains)/losses on financial instruments	-	877	(230)	-	647	-	-	-	-	-
Interest income (note 14)	(2,680)	-	-	-	(2,680)	(1,975)	-	-	-	(1,975)
Interest expense (note 14)	-	-	-	8,124	8,124	-	-	-	6,550	6,550
Net loss/(gain) for the year in the surplus or deficit on the provision of services	**(2,680)**	**877**	**(230)**	**8,124**	**6,091**	**(1,975)**	**-**	**-**	**6,550**	**4,575**

Group	2021-22					2020-21				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial liabilities at amortised cost	Total Group	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial liabilities at amortised cost	Total Group
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net (gains)/losses on financial instruments	-		(230)	-	(230)	-	-	-	-	-
Interest income (note 14)	(2,639)		-	-	(2,639)	(1,938)	-	-	-	(1,938)
Interest expense (note 14)	-		-	8,970	8,970	-	-	-	6,988	6,988
Net loss/(gain) for the year in the surplus or deficit on the provision of services	**(2,639)**	**-**	**(230)**	**8,970**	**6,101**	**(1,938)**	**-**	**-**	**6,988**	**5,050**

Fair value of financial assets and liabilities

Fair values are shown in the table overleaf, split by their level of fair value hierarchy:

- Level 1 – where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities). Listed investments are shown at bid prices. The bid value is based on the market quotation of the relevant stock exchange.
- Level 2 – where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable data. Such instruments would include unquoted equity investments.

Analysis for 2021/22	Input level in fair value hierarchy	Valuation technique used to measure fair value	Authority		Group	
			Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial assets at amortised cost						
Investments	N/A	Fair value is approximated at their carrying amount	265,662	265,662	269,335	269,335
Long-term debtors	N/A		236	236	236	236
Long-term debtors - soft loan	Level 2	Discounted contractual (or expect) cash flows at PWLB's new annuity rate	15,923	15,640	15,923	15,640
Short-term debtors	N/A	Fair value is approximated at their carrying amount	42,119	42,119	46,000	46,000
Cash and cash equivalents	N/A		369,503	369,503	371,089	371,089
Financial assets at fair value through other comprehensive income						
Investments in subsidiaries and joint ventures	Level 3	Earnings based valuation	3,673	3,673	3,673	3,673
Financial assets at fair value through profit or loss						
Pooled investment funds	Level 1	Unadjusted quoted prices in active markets for identical shares	5,230	5,230	5,230	5,230
Total financial assets			**702,346**	**702,063**	**711,486**	**711,203**
Financial liabilities at amortised cost						
Public Works Loan Board (PWLB)	Level 2	PWLB redemption and new PWLB certain rate loan discount rates	434,552	464,059	434,552	464,059
Barclays	Level 2		10,000	13,446	10,000	13,446
UK Infrastructure Bank	Level 2		10,000	9,032	10,000	9,032
Total borrowings			**454,552**	**486,537**	**454,552**	**486,537**
Short-term creditors	N/A	Fair value is approximated at their carrying amount	115,065	115,065	119,687	119,687
Transferred debt *	Level 2	PWLB new loan rates	4,744	4,987	4,744	4,987
Total financial liabilities			**574,361**	**606,589**	**578,983**	**611,211**

Comparatives for 2020/21	**Input level in fair value hierarchy**	**Valuation technique used to measure fair value**	**Authority**		**Group**	
			Carrying amount £'000	**Fair value** £'000	**Carrying amount** £'000	**Fair value** £'000
Financial assets at amortised cost						
Investments	N/A	Fair value is approximated at their carrying amount	124,739	124,739	124,739	124,739
Long-term debtors	N/A		339	339	339	339
Long-term debtors - soft loan	Level 2	Discounted contractual (or expect) cash flows at PWLB's new annuity rate	15,612	16,284	15,612	16,284
Short-term debtors	N/A	Fair value is approximated at their carrying amount	36,441	36,441	38,177	38,177
Cash and cash equivalents	N/A		144,413	144,413	148,702	148,702
Total financial assets			**321,544**	**322,216**	**327,569**	**328,241**
Financial liabilities at amortised cost						
Public Works Loan Board (PWLB)	Level 2	PWLB redemption and new PWLB certain rate loan discount rates	109,896	172,705	109,896	172,705
Barclays	Level 2		10,107	14,831	10,107	14,831
Total borrowings			**120,003**	**187,536**	**120,003**	**187,536**
Short-term creditors	N/A	Fair value is approximated at their carrying amount	106,054	106,054	110,031	110,031
Transferred debt *	Level 2	PWLB new loan rates	5,660	6,248	5,660	6,248
Total financial liabilities			**231,717**	**299,838**	**235,694**	**303,815**

* The transferred debt information is provided by Dudley Metropolitan Borough Council who is responsible for the West Midlands County Council Debt Administration Fund. The fair values were provided to them by their treasury advisor.

The financial assets carried at fair value through other comprehensive income largely consist of the Authority's equity investment in the HTO Group (HTO1 LLP and HTO2 LLP), which is jointly owned by City of Wolverhampton Council. The valuation technique used in determining the fair value is an earnings approach based on the net results as reported in their draft unaudited accounts at their reporting date i.e. 31 March. The Authority holds £4.5m nominal investment in the HTO Group.

Transfers between levels of the fair value hierarchy

There were no transfers between input levels during the year.

Changes in the valuation technique

There has been no change in the valuation technique used during the year for the financial instruments.

35. Operating leases

Authority as lessee

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

The future minimum lease payments payable under non-cancellable operating leases at 31 March 2022 are shown overleaf:

	2022 £'000	2021 £'000
Land and buildings		
Less than one year	480	632
Between two and five years	943	843
More than five years	3,234	3,375
	4,657	**4,850**

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

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2022 are as follows:

	2022 £'000	2021 £'000
Land and buildings		
Less than one year	274	357
Between two and five years	474	687
More than five years	1,797	1,840
	2,545	**2,884**

36. Reconciliation of liabilities arising from financing activities

	Long-term borrowings £'000	Short-term borrowings £'000	Grants receipts in advance £'000	Total Authority and Group £'000
Opening balance at 1 April	122,756	1,270	350,116	474,142
Financing cash flows	380,913	(48,204)	-	332,709
Non-cash changes	(13,767)	13,767	94,929	94,929
Closing balance at 31 March	**489,902**	**(33,167)**	**445,045**	**901,780**

37. Contingent liabilities and guarantees

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

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

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

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

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

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

38. Related party disclosures

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

Central Government
Central Government has significant influence over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates and provides funding in the form of grants. Grants received from Government Departments together with grant receipts not yet recognised due to conditions attached to them at 31 March 2022 are set out in note 15.

Members
Members of the Authority have direct control over the Authority's financial and operating policies. The total of members allowances paid in 2021/22 is shown in note 17. All members have at least two roles under the Local Government Act 1985 in that they are members of one of the seven constituent levying District Councils and are appointed to the Authority or co-opted to one of its committees.

During the year, there were expenditure and grant payments to the following entities:

- Black Country Consortium Limited totalling £311k (2021: £591k) in which three members have an interest
- West Midlands Growth Company Limited totalling £7m (2021: £3.4m) in which three members (2021: one officer representation on the board as WMCA stakeholder) have an interest.

Officers
There were no significant transactions between the officers and other related parties during the year.

In 2020/21, there were income transactions of £20k relating to rental income and recharges, and professional consultancy fees and miscellaneous expenses with the following companies in which two officers had their representation on the board as WMCA stakeholder:

West Midlands Growth Company Limited	£3.4m
University of Birmingham	£361k
Urban Transport Group	£82k

Transactions with these companies were conducted at arm's length. The amounts as at 31 March 2021 due to and due from these companies are shown below:

Name	Due to	Due from
	£'000	£'000
West Midlands Growth Company Limited	625	-
University of Birmingham	64	2
Urban Transport Group	-	-

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

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

	Transport Levy		Membership fees and contributions		LGF LEP funding	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000
Constituent authorities						
Birmingham City Council	44,728	44,895	1,087	1,088	197	9,080
City of Wolverhampton Council	10,316	10,306	573	573	-	-
Coventry City Council	14,553	14,428	636	634	-	-
Dudley MBC	12,598	12,612	607	607	-	-
Sandwell MBC	12,866	12,878	611	611	-	-
Solihull MBC	8,476	8,454	545	545	-	-
Walsall Council	11,183	11,147	585	585	-	-
Non-constituent authorities	-	-	325	375	-	-
Total	**114,720**	**114,720**	**4,969**	**5,018**	**197**	**9,080**

Funding paid by the Authority to the constituent District Councils:

	Devolved Transport Funding		Economic Regeneration		Adult Education Budget	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000
Constituent authorities						
Birmingham City Council	5,165	7,257	31,926	7,917	10,220	10,202
City of Wolverhampton Council	4,002	7,610	-	-	3,289	3,283
Coventry City Council	5,566	6,995	61,958	31,967	5,297	5,288
Dudley MBC	5,246	8,912	-	-	1,509	1,506
Sandwell MBC	6,026	7,247	-	-	1,408	1,531
Solihull MBC	4,251	5,894	11,075	11,992	-	-
Walsall MBC	4,306	7,589	18,079	9,947	-	-
Total	**34,562**	**51,504**	**123,038**	**61,823**	**21,723**	**21,810**

Entities controlled or significantly influenced by the Authority
During the year, the Authority paid management fees of £100k (2021: £150k) and £600k (2021: £600k) to West Midlands Development Capital Limited, a wholly-owned subsidiary, for the management of the Brownfield Land and Property Development Fund and the Collective Investment Fund respectively.

West Midlands Rail Limited, a company limited by guarantee where the Authority has 50% interest, received funding contributions of £41k (2021: £41k) from the Authority. In addition, the Authority recharged expenses of £201k (2021: £380k) which the Authority paid on behalf of West Midlands Rail Limited. The Authority has also charged corporate support and professional services of £55k (2021: £46k).

Other than as disclosed in note 23, Midland Metro Limited, a wholly-owned subsidiary which is consolidated in the group accounts, received a subsidy of £3.6m (2021: £407k) from the Authority under the terms of the Public Service Agreement. The Authority has charged corporate support and professional services of £529k (2021: £502k). The Authority has also recharged expenses of £98k (2021: £72k). Additionally, Midland Metro Limited has recharged £3.7m (2021: £1.7m) in respect of Metro network developments and enhancements to the Authority.

During the year, the Authority provided grants and services of £982k (2021: £647k) to WM5G Limited, a wholly-owned subsidiary which is consolidated in the group accounts, in respect of funding of initiatives and competitions to acceleration 5G infrastructure and applications. The Authority has also recharged expenses of £10k (2021: £27k).

Transactions with West Midlands Development Capital Limited, West Midlands Rail Limited, Midland Metro Limited and WM5G Limited were conducted at arm's length. The outstanding balances as at 31 March 2022 are as follows:

Due from	
Midland Metro Limited	£408k
West Midlands Rail Limited	£63k

39. Events after the Reporting Period

The unaudited Statement of Accounts were authorised for issue by the Authority's Section 151 officer on 23 June 2022. Events taking place after this date are not reflected in the financial statements or notes to the accounts. Where events taking place before this date provided information about conditions existing as at 31 March 2022, the amounts in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

40. Prior period adjustments

Capital grants funding revenue expenditure funded from capital under statute (REFCUS) were previously credited to taxation and non-specific grant income. These are now credited to the services that the qualifying expenditure is charged to which provides a better representation of the net costs of the individual service line to be funded from resources.

As this is a change in accounting policy, the 2020/21 comparatives in the Comprehensive Income and Expenditure Statement have been restated with no impact to the General Fund balance.

The effect on the restatement is detailed overleaf:

Effect on Comprehensive Income and Expenditure Statement

Authority	As previously reported			Reclassification			As restated		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Transport services	194,761	(26,966)	167,795	-	(42,985)	(42,985)	194,761	(69,951)	124,810
Combined Authority other services	155,983	(144,599)	11,384	-	(9,354)	(9,354)	155,983	(153,953)	2,030
Investment Programme	96,444	-	96,444	-	-	-	96,444	-	96,444
Mayor's office	796	(807)	(11)	-	-	-	796	(807)	(11)
Cost of services	**447,984**	**(172,372)**	**275,612**	**-**	**(52,339)**	**(52,339)**	**447,984**	**(224,711)**	**223,273**
Other operating expenditure	(1,584)	-	(1,584)	-	-	-	(1,584)	-	(1,584)
Financing and investment income and expenditure	6,550	(1,975)	4,575	-	-	-	6,550	(1,975)	4,575
Taxation and non-specific grant income and expenditure	77,139	(358,431)	(281,292)	-	52,339	52,339	77,139	(306,092)	(228,953)
(Surplus) or deficit on provision of services	**530,089**	**(532,778)**	**(2,689)**	**-**	**-**	**-**	**530,089**	**(532,778)**	**(2,689)**

Group	As previously reported			Reclassification			As restated		
	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
Transport services	206,111	(38,353)	167,758	-	(42,985)	(42,985)	206,111	(81,338)	124,773
Combined Authority other services	164,815	(152,532)	12,283	-	(9,354)	(9,354)	164,815	(161,886)	2,929
Investment Programme	96,173	-	96,173	-	-	-	96,173	-	96,173
Mayor's office	796	(807)	(11)	-	-	-	796	(807)	(11)
Cost of services	**467,895**	**(191,692)**	**276,203**	**-**	**(52,339)**	**(52,339)**	**467,895**	**(244,031)**	**223,864**
Other operating expenditure	(1,584)	-	(1,584)	-	-	-	(1,584)	-	(1,584)
Financing and investment income and expenditure	6,988	(1,938)	5,050	-	-	-	6,988	(1,938)	5,050
Taxation and non-specific grant income and expenditure	76,879	(358,431)	(281,552)	-	52,339	52,339	76,879	(306,092)	(229,213)
(Surplus) or deficit on provision of services	**550,178**	**(552,061)**	**(1,883)**	**-**	**-**	**-**	**550,178**	**(552,061)**	**(1,883)**

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

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

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

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

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

Budget
A budget is a plan of approved spending during a financial year.

Capital Programme
The plan of approved spending on non-current assets.

CIPFA
The Chartered Institute of Public Finance and Accountancy, the institute that governs accounting in the public sector.

Collective Investment Fund
Fund of investments held by the Authority which provides loans to property developers to support the acceleration of commercial property developments within the West Midlands region.

Credit loss
Cash shortfalls measured by the difference between the net present value of all the contractual cash flows that are due to an authority in accordance with the contract for the instrument and the net present value of all the cash flows that the authority expects to receive.

Deficit
This occurs when spending exceeds income.

Depreciation
The measure of wear and tear, consumption or other reduction in the useful economic life of a non-current asset.

Expected credit loss
The weighted average of credit losses with the respective risks of a default occurring as the with the weights.

Fair Value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Financial Instrument
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Year
The Authority's financial year runs from 1 April to the following 31 March.

Impairment of Asset
An asset has been impaired when it is judged to have lost value other than through normal use.

Intangible Assets
An item which does not have physical substance (for example software) but can be identified and used by the Authority over a number of years.

Lease
A finance lease is an agreement to pay for an asset in regular instalments where the person paying the lease (the lessee) is deemed to own the asset. In contrast, an operating lease occurs when the lessee is not considered to own the asset.

LOBO
Lenders Options Borrowers Option. A form of loan where the lender can change certain conditions of the loan, such as the dates and the interest rate. If this occurs, the borrower then has the option of either continuing with the loan or redeeming it in full without a penalty.

Materiality
An item is material if its inclusion in the financial statements would influence or change the judgement of a reasonable person. If the information would have no impact on the decision maker, it is deemed not material.

Public Works Loan Board (PWLB)
A government agency that lends money to local authorities. Local authorities are able to borrow some or all of their requirements to finance capital expenditure from this source.

Revenue Expenditure Funded from Capital under Statute (REFCUS)
Spending on assets that have a lasting value but are not owned by the Authority.

Grant Thornton

The DRAFT Audit Findings for West Midlands Combined Authority

Year ended 31 March 2022

West Midlands Combined Authority
02 December 2022

Contents

Your key Grant Thornton team members are:

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The Key Audit Partner(s) for Authority's Material Subsidiaries are :

MML Key Audit Partner
Firm : Williamson & Croft Audit Limited
Tor Stringfellow

WM5G Key Audit Partner
Firm: Cooper Parry
Glen Bott

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit, Risk and Assurance Committee.

Name : Grant Patterson
For Grant Thornton UK LLP
Date :

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Combined Authority ('the Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Authority's financial statements give a true and fair view of the financial position of the group and Authority and the group and Authority's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed following a hybrid model during June-November. Our findings are summarised on pages 4 to 19.

There are two adjustments to the financial statements that have resulted in a £7.7m adjustment to the Authority's Balance Sheet in respect of:

- £1.8m reduction in the Authority's net pension liability following receipt of an updated IAS 19 report from the actuary, and
- £5.9m reduction in the valuation of land fund assets following the receipt of the formal valuation report after the draft accounts had been prepared.

Audit adjustments are detailed in Appendix C.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete, subject to the following outstanding matters;

- Property, Plant and Equipment,
- grant income,
- group consolidation,
- review of the final set of financial statements; and
- receipt of management representation letter {– see appendix F}.

There are a number of matters still underway as at the time of writing but from the work done to date there are no matters which we are aware of that would require modification of our audit opinion subject to satisfactory resolution of the outstanding matters above.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified, but we will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Auditor's Annual Report (covering our work on the Authority's value for money arrangements).

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. As reported in the audit plan, we did not identify any risks of significant weakness. We have continued to assess this as the audit has progressed. This has not identified any significant weaknesses.

We expect to issue our Auditor's Annual Report shortly after the audit opinion. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Authority's VFM arrangements, which will be reported in our Annual Audi tor's report, and the completion of our work on WGA.

Significant Matters

As previously reported to ARAC, the audit has been particularly challenging this year, due to staff sickness in both the client finance team and the audit team. In addition, the complexities of the audit trail, additional risks around grant income and infrastructure, plus queries on the work of the component auditors has meant that the audit has taken longer than was originally planned. We will be discussing the impact that this has on the final fee for the audit with the Executive Director of Finance once the audit has been concluded.

We have also consulted with our technical specialist on the treatment of the loan commitment with Phoneix Life Limited and have discussed the sufficiency of the Minimum Revenue Provision with officers in the finance team.

Further information on these matters are included on pages 15-17 in this report.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit, Risk and Assurance Committee (ARAC).

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures were required for both Midland Metro Limited and WM5G. These procedures have been performed by the component auditors, and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 12 April, to reflect the national issue in respect of infrastructure assets. Our progress reported to ARAC in September highlighted we had raised questions surrounding the treatment of infrastructure assets. We are reviewing this against the required treatment and the impending statutory direction. We have not identified this area as a new significant risk, but we have highlighted it as an area of enhanced focus. In addition, we have noted that asset disposals have increased from prior years, and these now fall into the scope of our audit. Again, we have not considered these to be a significant risk, but we have undertaken some procedures on this balance, as it is now material.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the ARAC meeting on 24 January 2023, as detailed in Appendix E. These outstanding items include:

- Property, Plant and Equipment,
- grant income,
- group consolidation,
- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As previously reported to ARAC, the audit has been particularly challenging this year, due to staff sickness in both the client finance team and the audit team. In addition, the complexities of the audit trail, additional risks around grant income and infrastructure, plus queries on the work of the component auditors has meant that the audit has taken longer than was originally planned. We will be discussing the impact that this has on the final fee for the audit with the Executive Director of Finance once the audit has been concluded.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised materiality for the financial statements as a result of the significant increase in the gross expenditure for the Authority. The increase is predominantly as a result the significant increase in grant expenditure to support the growing capital programme. This increase was not predicted when finance officers provided us with the forecasts used to determine planning materiality.

We detail in the table below our determination of materiality for West Midlands Combined Authority and group.

	Group Amount	Authority Amount	Qualitative factors considered
Materiality for the financial statements	£9.3m (£8.4m at planning)	£9m (£8m at planning)	We worked with officers at planning to understand the likely estimate of gross expenditure that would be presented in the accounts. These estimates did not include additional capital expenditure that was funded by additional grant money to support the growing capital program. While materiality has increased, the benchmark used to assist with our determination of materiality has remained unchanged.
Performance materiality	£6.51m (£5.88m at planning)	£6.3m (£5.6m at planning)	This is determined by applying 70% to headline materiality. There has not historically been a large number of significant misstatements arising as a result of the financial statements audit at the Authority, however we have reduced the benchmark used this year to reflect the reduced capacity of the finance team responsible for the production of the financial statements.
Trivial matters	£465k (£420k at planning)	£450k (£400k at planning)	This is determined by applying 5% to headline materiality.
Materiality for senior officer remuneration		£23,800 (£22,500 at planning)	We believe these disclosures are of specific interest to the reader of the accounts.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Management override of controls

Risk relates to both the Group and the Authority.

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

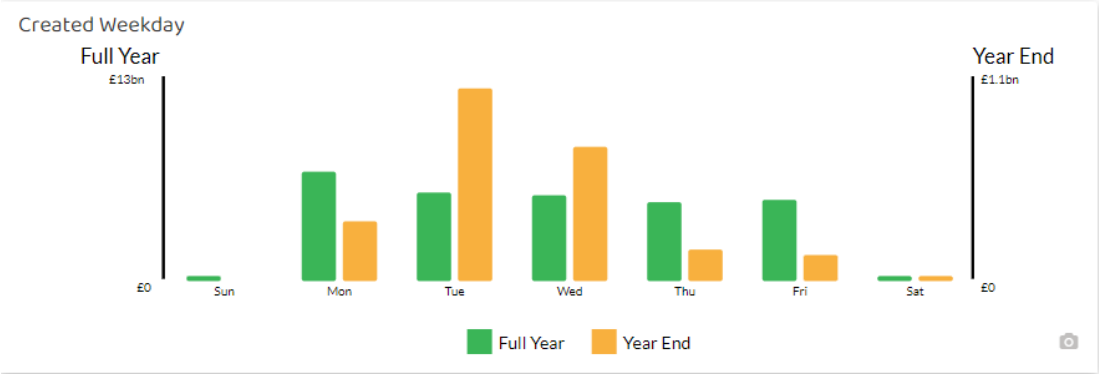
We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our testing of estimates, judgements and journals has not identified any evidence of management override of controls.

The Authority processed 78,833 journals each containing multiple lines of data in respect of the year ending 31 March 2022, with a value in excess of £28 billion. 5% of these by number occur at year end but they make up nearly 9% of the value, with the majority linked to a handful of users. While we generally anticipate an increase in activity at year end, auditing standards specifically require us to consider year-end journals and therefore we consider them separately.

The chart below is taken from our 'inflo' software which we use to analyse the transactions posted by the Authority during the year. They are included to demonstrate the volume of such transactions and why therefore we review them as part of our response to this significant risk.



Our testing of journals, did identify one transaction that included an expense claim for the Chief Executive. The claim had been entered onto the system by her assistant but had been authorised by the Chief Executive. We reviewed the supporting evidence for the claim and confirmed that the claim was adequately supported. Further testing suggested that this was an isolated incident, but management may want to review their governance processes around senior management expense claims so that they are authorised by a different member of the management team.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Midlands Combined Authority mean that all forms of fraud are seen as unacceptable. No specific work was identified at the planning stage of the audit as the presumed risk had been rebutted. Our assessment of this remains unchanged.	Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Authority's and Group's revenue streams, as they are material. We have: <u>Accounting policies and systems</u> • evaluated the Authority's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • updated our understanding of the Authority's business processes associated with accounting for income <u>Fees, charges and other service income</u> • agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <u>Taxation and non-specific grant income</u> agreed, on a sample basis, income to supporting evidence <u>Other grants</u> • sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We also designed tests to address the risk that income has been understated, by not being recognised in the current financial year. **<u>Findings</u>** We have no findings to bring to your attention from work done to date, but note that there are queries that are yet to be resolved with the Authority in respect of our work on grant income.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have rebutted this presumed risk for West Midlands Combined Authority because: • expenditure is well controlled and the Authority has a strong control environment; and • the Authority has clear and transparent reporting of its financial plans and financial position to the Board. We therefore do not consider this to be a significant risk for West Midlands Combined Authority.	Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Authority's expenditure streams, as they are material. In addition to reviewing the accounting policies as highlighted above, we have: <u>Expenditure</u> • updated our understanding of the Authority's business processes associated with accounting for expenditure • agreed, on a sample basis, operating expenditure and year end creditors to invoices and cash payment or other supporting evidence • performed substantive analytical procedures on the Authority's employee remuneration costs and depreciation We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. **<u>Findings</u>** We have no findings to bring to your attention from work done.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability – £42.991m Risk relates to the Authority only. The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. We have been made aware that due to a variance identified by the pension fund auditor, revised IAS 19 reports were required for all admitted bodies. These revised reports have been received by the Authority, and while the difference is not material, officers have decided to amend for the new report. These adjustments are recorded in Appendix C. We have also noted that the accounting policy as disclosed in relation to pension schemes lacks detail, and we have requested that officers make amendments to include more information around service costs and remeasurement. We have specifically commented on the reasonableness of the assumptions used on page 11.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Midland Metro Limited	Williamson & Croft Audit Ltd	We issued group instructions to Williamson & Croft Audit Ltd. The instructions covered specified audit procedures relating to significant risks of material misstatement. The audit of MML is currently incomplete, however the auditor has responded to our group instructions and indicated that there are no significant issues that would materially impact on the group.	We have reviewed the work performed by the component auditor and to date have not been able to conclude that their work provides sufficient assurance for the group audit. We have requested further information from the component auditor, and we are waiting for this to be provided alongside final completion documents that were set out in the group instructions.
WM5G	Cooper Parry	We issued group instructions to Cooper Parry. The instructions covered specified audit procedures relating to significant risks of material misstatement. The audit of WM5G was signed off on the 20 July 2022. No significant issues were identified that would materially impact on the group.	We have received the group completion documents from Cooper Parry and have reviewed the work of the component auditor. This provides us with sufficient assurance for the group audit opinion.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Infrastructure Assets • In our audit plan we identified a risk in relation to infrastructure assets. The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, with a requirement to reconcile the gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. These requirements of the Code are derived from IAS 16 *Property, Plant and Equipment.* Infrastructure assets includes, bus stations, tram tracks and streetlighting. In 2021/22 the Authority spent £7.1m on infrastructure capital additions. As at 31 March 2022, the net book value of infrastructure assets was £267.7m which is over 29 times materiality.	To address this risk we have; • reconciled the fixed asset register to the financial statements, • obtained assurance that the Useful Economic Life (UEL) applied to infrastructure assets is reasonable, and • documented our understanding of management's process for derecognising infrastructure assets on replacement and obtained assurances that the disclosure in the PP&E note is not materially misstated.	We have substantially completed our work in this area. We have obtained a detailed understanding of the arrangements that the Authority has in place for treating infrastructure in it's asset register. Infrastructure is recorded at a component level, with testing confirming that assets are derecognised when they are no longer in use. We are completed testing on UEL's across both infrastructure and vehicles, plant and equipment categories. The testing identified that in 5 of the 11 assets sampled, the UEL used, while in line with the policy, was not in line with how the asset had been used. Assets were being used longer than anticipated, resulting in depreciation being over estimated in prior years. The impact of this is not material, but highlights the need for all assets to be reviewed at least annually , and if expectations on asset life differ from previous estimates a change in accounting estimate should be made to ensure full compliance with IAS 16. The UEL testing also identified a potential misclassification of £1.2m of assets that were disclosed as Vehicles, Plant and Equipment, but meet the definition of Infrastructure as per the Code. The accounting treatment of infrastructure assets is a national issue, with the Department for Levelling Up, Housing & Communities (DLUHC) continuing to work on a Statutory Instrument, which has been laid in Parliament on 30 November 2022 and comes into force on 25 December 2022. This will resolve the majority of the ongoing audit challenges related to infrastructure asset balances.
Recognition and Presentation of Grant Income • The Authority receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Authority is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Authority also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.	To address this risk we have; • Reviewed the grant income and obtained a detailed understanding of how the Authority accounts for grant income, and • Tested a sample of grant income and grants received in advance to supporting documentation and considered any conditions in place on the use of the grant.	In preparing the draft financial statements finance officers reviewed the accounting policy for capital grants funding revenue expenditure from capital under statute (REFCUS). The review identified that to achieve a fairer presentation these grants should be funded from resources rather than taxation and non specific grant income. As this is a change in accounting policy, the prior year comparatives have been restated. Given the change in accounting policy by the Authority, and the significant increase in grant funding, we have placed an enhanced focus on this area. As in previous years, the audit trail from the management accounts through to the statutory financial statements is complicated. Understanding this, and developing a testing strategy that enables testing at a transactional level has been time consuming. As a result, we are yet to fully complete our testing in this area, with some queries outstanding.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	**Summary of management's approach**	**Audit Comments**	**Assessment**
Land and Building – £3.659m	The majority of the value associated with Land and Buildings, as disclosed in Note 19 is in relation to the property at 16 Summer Lane. Land and buildings are revalued at least every five years at current value and a full valuation was carried out as at 31 March 2019. These are not specialised land and buildings and are therefore required to be valued at existing use in value (EUV) at year end. The Authority has engaged Bruton Knowles to complete a desktop valuation carried out between valuations for indications of material changes. This year, saw Bruton Knowles carry out a desktop valuation to confirm there were no material changes to the valuation used. Given the balance, this is not considered a material accounting estimate for the purposes of the accounts preparation, but reported to members for completeness.	We have considered the estimate applied by management and the use of their expert, Bruton Knowles. • The valuation methodology applied is consistent with the prior year and professional standards. • The disclosure in the financial statements at Note 19 is adequate. We have written directly to the valuer to confirm their independence and methodology, however we are yet to receive a response.	Light purple
Inventories - £14.372m	The Land Fund is a capital grant made to the Authority for it to use to assemble land and fund the subsequent remediation and/or servicing for residential development; or to utilise as investment in third party housing projects to drive delivery. The intended use of the assets is for housing development and demolition and/or remediation works are required to be carried out in order to bring derelict sites back into use. The asset isn't complete until it is fully remediated and the land, once remediated, is not expected to be used by the Authority during more than one period. Therefore it does not meet the definition of Property, Plant and Equipment. Management have classified these assets as Inventory, and given their nature have employed Burton Knowles to undertake a valuation of them at year end. The valuation has been prepared on a net realisable value basis, as required for inventory.	We have considered the estimate applied by management and the use of their expert, Bruton Knowles. • The valuation methodology applied is consistent with professional standards. • The draft financial statements were prepared prior to the valuation being received. The valuation shows a £5.905m reduction in the value that the land should be recorded on the balance sheet, and officers will be amending for this in the final version of the financial statements.	Light purple

Assessment

- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £42.991m</td>
<td>The Authority's total net pension liability at 31 March 2022 per the draft accounts was £42.991m. (Following receipt of a revised IAS 19 report, this has now been amended to £41.150m.)

The Authority uses Hymans Robertson LLP to provide actuarial valuations of the Authority's assets and liabilities derived from the Local Government Pension Scheme in which it participates, (which is the West Midlands Pension Fund, administered by the City of Wolverhampton Council).

A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions, such as life expectancy, discount rates, salary growth and investment returns. Given the significant vale of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</td>
<td>

We have no concerns over the competence, capabilities and objectivity of the actuary used by the Authority.
We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Fund valuation as it applies to WMCA.

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.70%</td><td>2.7% -2.75%</td><td>● (G)</td></tr>
<tr><td>Pension increase rate</td><td>3.30%</td><td>3.15% - 3.3%</td><td>● (G)</td></tr>
<tr><td>Salary growth</td><td>4.3%</td><td>3.8% to 5.8%</td><td>● (G)</td></tr>
<tr><td>Life expectancy – Males retiring today</td><td>21.2</td><td>20.1 – 22.7</td><td>● (G)</td></tr>
<tr><td>Life expectancy – Males retiring in 20 years</td><td>22.9</td><td>21.4 – 24.3</td><td>● (G)</td></tr>
<tr><td>Life expectancy – Females retiring today</td><td>23.6</td><td>22.9 -24.9</td><td>● (G)</td></tr>
<tr><td>Life expectancy – Females retiring in 20 years</td><td>25.4</td><td>24.8 – 26.7</td><td>● (G)</td></tr>
</table>

No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. The revised IAS 19 has not identified any changes in these assumptions.

</td>
<td>Light purple</td>
</tr>
</table>

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
●	Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £2.336m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £2.336m, a net increase of £1.9m from 2020/21.	This has been an area of discussion with management, and our findings are reported on page 16.	Blue

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
●	Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Complexity of the audit trail and working papers to support the financial statements.	As the Authority has grown, the level and complexity of the transactions entered into has increased. While the accounting system enables individual transactions to be tracked, the audit trail is protracted, leading to inefficiencies in the audit process and a number of delays. We have raised this with officers in prior years however no changes have been made to the process in place. The production of the statutory financial statements are heavily reliant on a set of detailed spreadsheets which provide the links back to the accounting system. Our audit approach is substantively based and relies upon being able to identify sums at transactional level. To drill down into one transaction for testing purposes requires a number of iterations of reports and further breakdowns from the ledger and supporting excel automated workbooks. This leads to delays in the completion of the audit process. It also requires substantial officer time to provide the information that is required. Even when at a transaction level, the balance is often generated from a separate system within the Authority, which requires a detailed understanding to be able to understand the nature and substance of the transaction. We have encountered particular difficulties this year with the audit trail for grant funding, which has led to additional time being spent on the audit. There is strong focus on systems that provide accurate and timely management reporting information, however, that does not translate easily into the information that is needed to produce a set of CIPFA Code compliant statutory financial statements. The current method of compilation of the financial statements means that we are unable to apply a range of automated audit techniques which would enable us to gain assurance over the balances produced in a shorter timescale. The Authority has a small core finance team, with detailed knowledge often concentrated in one person. This creates bottlenecks in workloads, and has resulted in significant delays. Similarly, supporting information necessary for detailed transactional testing, has been gathered from across the Authority, however all of that information has been quality assured by the core finance team in an attempt to limit further auditor queries, however this has again led to delays in the process due to the limited resources in the core finance team.	To enable the audit to be completed in a shorter timescale a full review of the process for the compilation of the financial statements needs to be undertaken by the finance team. This needs to focus on the ledger being used to produce the financial statements, creating less reliance on intermediate spreadsheets and work arounds. Supporting information for balances within the financial statements needs to enable a direct drill down to transactional level for all balances, but most specifically operating expenditure, grant income, capital additions and REFCUS. Audit is becoming more complex. In order to understand and challenge transactions and assumptions we need to directly engage with officers in other departments who can explain processes or give context to decisions taken. e.g. engineers. There needs to be greater ownership of the financial accounts process outside of the finance team to ensure information is provided right first time in a reasonable timescale, without the need for an extensive quality control process. **Management response** We acknowledge the need for less reliance on intermediate spreadsheets and work arounds when producing the financial statements and are working towards automating their production for the 2022/23 financial statements. We also acknowledge the need for greater engagement in the audit process by other departments to ensure information is provided right first time and will be working with the wider team to raise awareness ahead of the 2022/23 audit.

2. Financial Statements - matters discussed with management

Background and Issue

The Department for Levelling Up, Housing and Communities and Local Government (DLUHC) (formerly MHCLG) has policy responsibility for the Prudential System. This covers the responsibility for ensuring that the statutory guidance drives local authorities to make borrowing and investment decisions in a way that is commensurate with their statutory responsibilities and the best value duty. It also includes overall responsibility for the local government finance system, including understanding the risks to the system from changes in the types of borrowing and investment activities that local authorities are undertaking.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended and includes the Statutory Guidance on Minimum Revenue Provision (MRP) prepared by MHCLG. The MRP Guidance gains its statutory status from section 21(1A) of the 2003 Act.

Minimum Revenue Provision (MRP):

- Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements.
- Since the introduction of MRP, there have been a number of changes to statutory guidance. One of the most significant was in 2012 with a shift in emphasis from prescriptive regulations to guidance to help to promote development schemes which would have been hindered by the inflexibility of the former regulatory regime and effectively give councils autonomy to make decisions on the level of provision based on local circumstances.
- In 2019 there was a slight retrenchment and a tightening of the interpretation of what was deemed to be a "prudent provision". It also made it impossible to take credit from an MRP account where there had been over provision in the past, but it was still permissible to take 'holidays' for this reason, and councils were prevented from changing the basis of calculation in order to retrospectively generate an overpayment that a 'holiday' could be taken on (this applied from 1 April 2018).

Sector Analysis:

During September 2021, Grant Thornton carried out a benchmarking exercise across its Local Government client base in order to identify organisations where the level of MRP provided for appeared to be low, when expressed as a percentage of a body's overall Capital Financing Requirement. The outputs from this were not available ahead of us issuing our 2020/21 audit opinion but we have revisited this in 2021/22. At around 1.25%, the Authority's MRP was RAG rated as "amber" and the audit team entered into discussions with management to understand the drivers behind this.

Upon review of the Authority's MRP policy and underlying working papers, we identified three key drivers of the apparent low level of MRP:

  - the 'holiday' currently being taken on MRP as a result of changing the calculation methodology to an annuity basis
  - the significant majority Investment Programme funded projects not being operational and therefore not subject to MRP in 2021/22, and
  - setting the MRP for capital loans (soft loans and investments through the CIF) to zero on the expectation that the capital (principal) repayments would reduce the Capital Financing Requirement until the original principal borrowed had been fully repaid but in order to maintain prudence an annual expected credit loss calculation would be undertaken to assess whether principal repayments would be received in full.

Paragraph 46 and 47 of the 2019 statutory guidance (with effect from 1 April 2019) and paragraphs 23 and 24 of the 2012 statutory guidance in respect of loans and grants towards capital expenditure by third parties state that where on or after 1 April 2008 an authority incurs expenditure which is:

- Financed by borrowing and credit arrangements; and
- Treated as capital expenditure by virtue of either a direction under section 16(2)(b) of the 2003 Act or Regulation 25(1) of the 2003 Regulations,

The Authority should calculate MRP in accordance with the Asset Life Method.

2. Financial Statements - matters discussed with management

Background and Issue

30 November 2021 Consultation

On 30 November 2021 the DLUHC launched a consultation on proposed changes to the regulations which require MRP. The key items in the consultation were:

- the changes will clearly set out that capital receipts, as a capital resource, cannot be used in lieu of all or part of the required prudent MRP charge to revenue
- authorities should not be excluding elements of their Capital Financing Requirement from the scope of MRP (e.g. authorities should not be excluding capital expenditure on investment properties or loans from the scope of MRP on the grounds of anticipated future capital receipts)
- the Department considers this a clarification of existing provisions, not a change of policy, and
- the revised Regulations are expected to come in to force from 1 April 2023 and not be retrospective.

Audit View

Both the 2012 and 2019 guidance does recognise that “Authorities must always have regard to the guidance, but having done so, may in some cases consider that a more individually designed MRP approach is justified.” Whilst we accept that the Authority has a clear rationale for its policy choices, it is the Firm’s view that the Authority’s current policies in respect of capital loans are not fully compliant with the expectations of the Prudential Framework and the current statutory MRP guidance and that the current consultation confirms this. However, we also recognise that the consultation does not propose retrospective lump sum catch up payments (if enacted) but there is an expectation that any under provisions are caught up in future provisions.

The consultation also meant that the door remained open for ministers to revisit the position based upon the feedback received. A subsequent survey proposed further amendment to permit MRP to be reduced in respect of capital loans, by loan repayments treated as capital receipts. However, authorities would need to recognise losses estimated on an expected credit loss basis. This proposed amendment is consistent with the approach currently adopted by the Authority and would effectively ‘regularise’ its position. Government will issue a full response to the consultation in due course.

We have reviewed the terms and conditions of the soft and CIF loans and are satisfied the specified purpose of these loans is for capital purposes and that they are likely to meet the definition of capital loans under the proposed regulations. Until this is confirmed our view is that the Authority’s policy to use capital receipts in place of an MRP provision is not in accordance with the current regulations .From the analysis provided by the Authority the principal outstanding on capital loans where MRP has not been made is £37.6m. The impact of this has been quantified by the audit team, and we consider there to be an undercharge of £8.3m on MRP, for the current year. This is not material. This undercharge has been calculated in reference to the life of the loans, however, there are other interpretations of the regulations which allow for an asset life methodology to be applied. If the Authority determined this an appropriate approach, the potential impact has been calculated by officers to be an estimated £1m undercharge in the current year.

Conclusion

Our view is that the Authority’s policy, whilst not in accordance with the statutory guidance, has not currently led to a material issue. The Authority has also considered prudence when setting it. However, we have asked officers to consider our estimations, and confirm if this is the extent of the undercharge, or if there is a larger cumulative impact. We are also satisfied, subject to further consideration as part of our Value for Money work, that there is no immediate impact upon the Authority’s short-term financial position.

However, should the current policy continue and the proposed amendments not regularise the position then the Authority would not be putting sufficient resources to one side to meet its obligations and mitigate potential risks alongside not being compliant with the current statutory guidance.

Considering this and given the government is now consulting on the matter we are satisfied that no formal audit action is required at this time. However, we have made an improvement recommendation (see Appendix A) in respect of the Authority considering its position and planning accordingly. The impact of MRP annual payments on the financial sustainability will be considered further and reported as part of our Auditors Annual Report.

Management Response

We are comfortable that we have provided for sufficient MRP within the 2021/22 financial statements and are cognisant of the evolving statutory guidance around the matter. We will consider our approach going forward as part of our medium term financial planning process.

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
The Authority has entered into a loan commitment with Phoneix Life Limited. The Authority will draw down £100m on 1 August 2023, and will have a maturity date of 1 August 2073.	Loan commitments are commitments to provide credit under pre-specified terms and conditions. Under IFRS 9.2.1 (g) loan commitments are not within the scope of IFRS 9 except for the following: • loan commitments that the entity designates as financial liabilities at fair value through profit or loss (see paragraph 4.2.2). An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class. • loan commitments that can be settled net in cash or by delivering or issuing another financial instrument. These loan commitments are derivatives. A loan commitment is not regarded as settled net merely because the loan is paid out in instalments (for example, a mortgage construction loan that is paid out in instalments in line with the progress of construction). • commitments to provide a loan at a below-market interest rate (see paragraph 4.2.1(d)).	We have discussed the terms of the loan with officers and agree with the view that the loan is not in scope of IFRS 9. Therefore there is no accounting or detailed disclosures required until the funds are drawn down. Having reviewed the loan agreement, it is likely that the prepayment feature in the loan is likely to give rise to a separable (non closely related) embedded derivative, this will require careful analysis to ensure that this is correctly accounted for in the 2023/24 financial statements. We would recommend that officers prepare a detailed accounting paper explaining their proposed treatment for this loan in advance of the preparation of the draft financial statements. This will enable agreement to be reached on the treatment at an early stage. **Management response** We have noted this matter and confirm that our proposed accounting treatment will be shared with you in advance of the preparation of the draft financial statements for 2023/24.

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk and Assurance Committee. We have not been made aware of any other incidents in the period and no other significant issues have been identified during the course of our audit procedures. We have considered the outcome of the report into the whistleblowing concern raised, and do not consider there to be any impact on the financial statements.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Authority [including specific representations in respect of the Group], which is appended.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all the Authority's bank, investments and loan counterparties. This permission was granted and the requests were sent. With the exception of one investment, we have received positive confirmation of the balances.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. With the exception of our views on MRP, our review found no material policy omissions in the financial statements. We have made some suggestions for greater clarification on the wording for some accounting policies, and offices have agreed to amend for these in the final version of the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

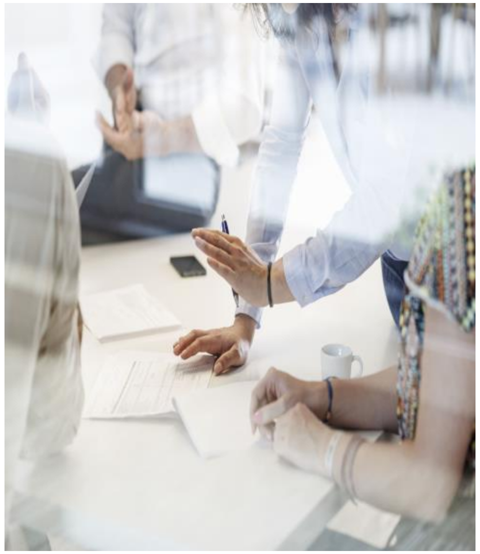
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E. We would however make the observation that the narrative report is very long when compared to others, and while it complies with the Code, there are elements of duplication within it and the AGS, and it could be reviewed to be more concise and more accessible to a reader of the accounts.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts (WGA)	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. For 2020/21 the threshold was amended, which resulted in the Authority falling below the specified group reporting threshold. As a result a limited amount of work was required by the audit team once the data collection exercise was confirmed. Guidance for the 2021/22 WGA is not yet available. Once this is released we will work with officers to ensure the required procedures are completed.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of West Midlands Combined Authority in the audit report, as detailed in Appendix E, due to incomplete VFM work and the need to complete the procedures in respect of WGA.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report shortly after the opinion. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any significant weaknesses in the audit plan, and our work to date on updating our understanding of the arrangements in place has not identified any further significant weaknesses.

Criteria	Work performed to date
Financial Sustainability	• We have held a number of meetings with key officers of the Authority, including the Chief Executive and s151 officer, • We have reviewed budget reports presented to members of the Board, and • We have reviewed the going concern assessment provided by management in relation to the 2021/2022 financial statements.
Governance	• We have held a number of meetings with key officers of the Authority, including the monitoring officer and the Head of Finance Business Partnering & Strategic Planning and the Mayor • We have reviewed reports presented to the Audit, Risk and Assurance Committee, • We have reviewed the outputs of Internal Audit and communicated with the Head of Internal Audit.
Improving economy, efficiency and effectiveness	• We have held a number of meetings with key officers of the Authority, including the Head of Commercial Procurement and the Head of Transformation. • We have reviewed key reports presented to members of the Board.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

There is one matter that impacts on our independence as auditors that we wish to draw to the attention of ARAC.

Under ethical standards an Engagement Lead can complete no more than seven years with any one client to reduce the risk of familiarity. An additional safeguard is in place for any audit's under the PSAA contract, and this requires further approval from PSAA for any engagement leads having an association with a client for more than five years. The audit of the 2021/22 financials statements will be the 6th year of association for the engagement lead. PSAA have granted Grant Patterson an extension for both the 2021/22 and 2022/23 financial statements and this has been confirmed by our own internal ethics function. We are satisfied that the matters above provide sufficient protection to enable us to remain independent to the audit of West Midlands Combined Authority.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Non Audit related	5,000	Self Interest	The amount of grant paid by the DfT to WMCA (who then pay it to MML) is less than 5% of the income of WMCA and our role would only ever focus on a small amount of the grant. As such, overall the work for the DfT will be a very small proportion of WMCA's income.
		Self review	The work is part of a much wider remit covering all bus and light rail operators in the UK and so the proposed service fee of £5k reflects the WMCA part of a much larger fee.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Risk and Assurance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 6 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	Complexity of the audit trail and working papers to support the financial statements.	A full review of the process should be undertaken following the completion of the audit to try and identify more efficient ways to gain assurance in future years. **Management response** We acknowledge the need for less reliance on intermediate spreadsheets and work arounds when producing the financial statements and are working towards automating their production for 2022/23.
Medium	We worked with officers at planning to understand the likely estimate of gross expenditure that would be presented in the accounts. These estimates did not include additional capital expenditure that was funded by additional grant money to support the growing capital program. As a result expenditure used as part of the planning was significantly different from actual expenditure, which caused a significant shift in the level of materiality used.	Clear working papers should be available as part of the interim audit which more accurately translates the forecast financial position into the impact on the financial statements at year end. **Management response** We acknowledge that there was a shift in gross expenditure between the final forecast for the year and the final financial statements, primarily resulting from the receipt of government grants awarded to support our capital programme that were not anticipated to be received in the final forecast for the 2021/22 year which was produced in January 2022. We will include an estimate of potential additional government grant awards for 2022/23 to ensure a more accurate estimate of gross expenditure is provided at interim audit.
Low	Our testing of journals, did identify one transaction that included an expense claim for the Chief Executive. The claim had been entered onto the system by her assistant but had been authorised by the Chief Executive. We reviewed the supporting evidence for the claim and confirmed that the claim was adequately supported. Further testing suggested that this was an isolated incident.	Management may want to review their governance processes around senior management expense claims so that they are authorised by a different member of the management team. **Management response** To note that other controls were in place including a review of the claim to ensure it complied with the Expenses Policy by the Payroll and Pensions team prior to release of payment. We have reviewed the governance around senior management expense claims and confirm that these are routinely authorised by a different member of the Strategic Leadership Team.

Controls

● High – Significant effect on financial statements
● Medium – Limited Effect on financial statements
● Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	The consultation makes it clear that the Authority's current policy to use capital receipts in place of an MRP provision is not in accordance with the regulations. The impact of this has been quantified by the audit team, and consider there to be an undercharge of £8.3m on MRP.	Management should review the calculation of the MRP and ensure that it is calculated in accordance with the current regulations. **Management response** We are comfortable that we have provided for sufficient MRP within the 2021/22 financial statements are cognizant of the evolving statutory guidance around the matter. We will consider our approach going forward as part of our medium term financial planning process.
Medium	The Authority has entered into a loan commitment with Phoneix Life Limited. The Authority will draw down £100m on 1 August 2023, and will have a maturity date of 1 August 2073.	Having reviewed the loan agreement, it is likely that the prepayment feature in the loan is likely to give rise to a separable (non closely related) embedded derivative, this will require careful analysis to ensure that this is correctly accounted for in the 2023/24 financial statements. We would recommend that officers prepare a detailed accounting paper explaining their proposed treatment for this loan in advance of the preparation of the draft financial statements. **Management response** We have noted this matter and confirm that our proposed accounting treatment will be shared with you in advance of the preparation of the draft financial statements for 2023/24.
Low	The narrative report is very long when compared to others, and while it complies with the Code, there are elements of duplication within it, and it could be reviewed to be more concise and more accessible to a reader of the accounts.	The content of the narrative report should be reviewed to ensure that elements of duplication are removed, and that it provides a concise summary of the activities of the Authority. **Management response** We confirm the 2021/22 narrative report was reviewed in conjunction with colleagues across the Authority to ensure it covered the breadth and depth of the Authority's remit and to make it more user friendly although we acknowledge the need to review the content to ensure any elements of duplication are removed.

Controls

● High – Significant effect on financial statements
● Medium – Limited Effect on financial statements
● Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of West Midlands Combined Authority's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report. The action is yet to be taken and we have repeated the recommendation in this year's action plan.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Complexity of the audit trail and working papers to support the financial statements. The recommendation suggested a full review of the process to try and identify more efficient ways to gain the necessary assurance in future years.	A joint review meeting was held following the audit last year, to identify areas for improvement, however the fundamental changes needed to audit trails have not yet been made.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The pension fund auditor identified a variance with the rate of return used by the actuary in the IAS 19 reports. As a result, all local government admitted bodies have received revised IAS 19 reports. The impact of the revised report is to reduce the Authority's net pension liability from £42,991k to £41,150k. While this is not material, officers have decided to amend for this balance. This also impact on the associated disclosure note, which is note 32.		(£1,841)	
The valuation report for assets that form part of the land fund arrived after the production of the draft financial statements. The valuation received is £5.9m less than the previous valuation and therefore officers intend to adjust for the latest valuation.	£5,905	(£5,905)	£5,905
Overall impact	£5,905	(£7,746)	£5,905

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Presentation and disclosure	Our review of the accounts highlighted minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with officers and changes will be made to the draft accounts submitted for audit. Examples included the amending the narrative around the soft loans to confirm that they were made in the prior year, rather than the current year, an amendment in the narrative report to update for the correct financial year and changes to column headings on notes to demonstrate where they have been restated.	✓
Note 38 – Related party transactions	Prior year comparators were omitted for part of the note, these will be included in the final version of the financial statements.	✓
Note 18 – Audit Fees	The audit fee disclosed in the draft financial statements is £67k, this should be amended to agree with the fee agreed in the audit plan of £68k.	✓
Note 7 – Expenditure and income analysed by nature	There is £818k that has been disclosed as REFCUS, that should be classified as other service expenses. The pensions classification of £13,200k is the accounting adjustment through the MiRS. This is not the actual cost of pensions, and we have agreed with officers that a fairer presentation would be to include this in the employee benefits expenses line.	✓
Note 19 Property, Plant and Equipment	The UEL testing identified a potential maximum misclassification of £1.2m of assets that were disclosed as Vehicles, Plant and Equipment, but meet the definition of Infrastructure as per the Code. As this is an estimation of the maximum likely value officers do not intend to amend the classification, which is reasonable given that it is not material.	x
Note 40 – Prior period adjustment	The change made to the presentation of grant income is a change in accounting policy and not a change as a result of an error in the prior year. Officers have agreed to amend the wording of this note to clarify this point.	✓
Group MiRS	Initial consolidation checks identified that the group MiRS was not presented in line with the Code. Officers have made the appropriate amendments to the draft financial statements.	✓
Cashflow statement	The cashflow statement has been amended to disclose separately the purchase of short term and long term investments and the proceeds from short term and long term investments. In addition they have also reclassified the increase in grants receipts in advance from the financing section of the cash flow statements to the investing activities section.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit, Risk and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	**Comprehensive Income and Expenditure Statement £'000**	**Statement of Financial Position £' 000**	**Impact on total net expenditure £'000**	**Reason for not adjusting**
Due to the complex nature of the funding for the Metro projects, the Authority have an automated process in place that allocates costs to the capital programme. A challenge of this allocation demonstrates that there is a likelihood that £1.63m of these costs does not meet the definition of capital expenditure and has been incorrectly capitalised. As officers have not done a detailed review of these costs, this estimation has been undertaken on a 'worst case' scenario basis, and as such officers have decided not to amend the financial statements in the current year.	£1,630	(£1,630)	£1,630	Not material quantitatively or qualitatively.
A BACs run was processed on 30/03/2022 for £1,339k. As this had not cleared the bank statement by the 31st March officers incorrectly made an adjustment for the cash amount back to creditors.	Nil	Dr Cash £1,339 Cr Creditors £1,339 Net nil impact	Nil	Not material quantitatively or qualitatively. Management do not agree that this is an error.
Overall impact	**£1,630**	**(£1,630)**	**£1,630**	

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements. These do not have a cumulative impact on the 2021/22 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Impairment of tram track between Bull Street and Grant Central Officers have identified an impairment trigger and estimated the potential impact of the value of the asset held within the balance sheet. The estimate suggests a maximum potential impairment of £5.5m.	£5.5m	(£5.5m)	£5.5m	Not material quantitatively or qualitatively Management have assessed the valuation of the track at year end March 2022 and not identified any impairment in relation to the track.
In testing the useful economic life of equipment assets we identified £1.4m of IT assets which are fully depreciated and are no longer in use. The net impact of this on the balance sheet is nil, however management recognise that this needs to be amended in the asset register in future years.				Not material quantitatively or qualitatively Management have carried out a review of net nil book value assets during 2021/22
Overall impact	£5.5m	(£5.5m)	£5.5m	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

The fees reconcile to the financial statements, following an amendment to the draft financial statements.

Audit fees	**Proposed fee**	**Final fee**
West Midlands Combined Authority Audit	£68,355	TBC
Total audit fees (excluding VAT)	£68,355	TBC

Non-audit fees for other services	**Proposed fee**	**Final fee**
Non Audit Related Services	£5k	TBC
Total non-audit fees (excluding VAT)	£5k	TBC

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report

Independent auditor's report to the members of West Midlands Combined Authority

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of West Midlands Combined Authority (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2022, which comprise the Authority Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Authority Movement in Reserves, the Group Movement in Reserves, the Balance Sheets, the Cash Flow Statement, and Notes to the Accounts including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Responsible Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Responsible Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

E. Audit opinion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Responsible Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Responsible Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Responsible Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Responsible Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

E. Audit opinion

Responsibilities of the Authority, the Responsible Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities [set out on page 33], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Responsible Finance Officer. The Responsible Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Responsible Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Responsible Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit, Risk and Assurance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003 and the Local Government Act 1972.
- We enquired of senior officers and the Audit, Risk and Assurance Committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit, Risk and Assurance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

E. Audit opinion

  - Journals processed by senior finance officers, as we would not expect them to be involved in the normal day to day operations of the general ledger
  - Journals with blank descriptions, as this could indicate that there is not a legitimate reason for posting a journal
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Responsible Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on any journals posted by senior finance officers and those with a blank description;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to defined benefit pensions liability valuations and did not identify any areas of non-compliance.
- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority’s engagement team included consideration of the engagement team's and component auditor’s.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

E. Audit opinion

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for West Midlands Combined Authority for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

F. Management Letter of Representation

Dear Sirs

West Midlands Combined Authority
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of West Midlands Combined Authority and its subsidiary undertakings, Midland Metro Limited and WM5G for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the pension fund liability and the measurement of financial instruments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Authority financial statements:

    vi. there are no unrecorded liabilities, actual or contingent

    vii. none of the assets of the group and Authority has been assigned, pledged or mortgaged

    viii. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

F. Management Letter of Representation

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Authority financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are quantitatively and qualitatively immaterial to the results of the Authority and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The prior period adjustments disclosed in Note 40 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the group and Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

  a. the nature of the group and Authority means that, notwithstanding any intention to cease the group and Authority operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

  b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

  c. the group and Authority's system of internal control has not identified any events or conditions relevant to going concern.

  We believe that no further disclosures relating to the group and Authority's ability to continue as a going concern need to be made in the financial statements

xvi. The group and Authority has complied with all aspects of ring-fenced grants that could have a material effect on the group and Authority's financial statements in the event of non-compliance.

Information Provided

xvii. We have provided you with:

  a. access to all information of which we are aware that is relevant to the preparation of the group and Authority's financial statements such as records, documentation and other matters;

  b. additional information that you have requested from us for the purpose of your audit; and

  c. access to persons within the Authority via remote arrangements,from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Authority, and involves:

  a. management;

  b. employees who have significant roles in internal control; or

  c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

F. Management Letter of Representation

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the group and Authority's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Authority's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Authority’s Audit, Risk and Assurance Committee at its meeting on 24 January 2023.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

G. Audit letter in respect of delayed VFM work

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

T +44 (0)121 212 4000

Mr M Smith
Chair of Audit, Risk and Assurance Committee
West Midlands Combined Authority
16 Summer Lane
Birmingham
B19 3SD

23 September 2022

Dear Mark

Delay to the reporting of VFM arrangements for 2021/22

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than three months after the date of the audit opinion but will be making best endeavours to complete our work significantly before then.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Grant Patterson
Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

Grant Thornton

grantthornton.co.uk

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

DD MM 2023

Dear Sirs

West Midlands Combined Authority
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of West Midlands Combined Authority and its subsidiary undertakings, Midland Metro Limited and WM5G Limited for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Authority financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Authority and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the group and Authority financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the pension fund liability and the measurement of financial instruments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Authority financial statements:

  a. there are no unrecorded liabilities, actual or contingent
  b. none of the assets of the group and Authority has been assigned, pledged or mortgaged
  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Authority financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Authority and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The prior period adjustments disclosed in Note 40 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the group and Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

   a. the nature of the group and Authority means that, notwithstanding any intention to cease the group and Authority operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
   c. the group and Authority's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Authority's ability to continue as a going concern need to be made in the financial statements.

xvi. The group and Authority has complied with all aspects of ring-fenced grants that could have a material effect on the group and Authority's financial statements in the event of non-compliance.

Information Provided

xvii. We have provided you with:
   a. access to all information of which we are aware that is relevant to the preparation of the group and Authority's financial statements such as records, documentation and other matters;
   b. additional information that you have requested from us for the purpose of your audit; and
   c. access to persons within the Authority via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Authority, and involves:
   a. management;
   b. employees who have significant roles in internal control; or
   c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

- xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiv. We have disclosed to you the identity of the group and Authority's related parties and all the related party relationships and transactions of which we are aware.
- xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Authority's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Authority’s Audit, Risk and Assurance Committee at its meeting on 24 January 2023.

Yours faithfully

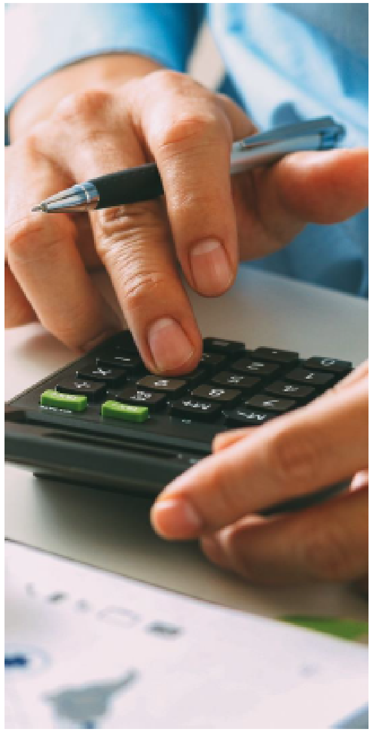
Name……………………………

Position………………………….

Date……………………………

Signed on behalf of the Authority

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit, Risk and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Due to the complex nature of the funding for the Metro projects, the Authority have an automated process in place that allocates costs to the capital programme. A challenge of this allocation demonstrates that there is a likelihood that £1.63m of these costs does not meet the definition of capital expenditure and has been incorrectly capitalised. As officers have not done a detailed review of these costs, this estimation has been undertaken on a 'worst case' scenario basis, and as such officers have decided not to amend the financial statements in the current year.	£1,630	(£1,630)	£1,630	Not material quantitatively or qualitatively.
A BACs run was processed on 30/03/2022 for £1,339k. As this had not cleared the bank statement by the 31st March officers incorrectly made an adjustment for the cash amount back to creditors.	Nil	Dr Cash £1,339 Cr Creditors £1,339 Net nil impact	Nil	Not material quantitatively or qualitatively. Management do not agree that this is an error.
Overall impact	£1,630	(£1,630)	£1,630	

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Audit, Risk & Assurance Committee

Date	24 January 2023
Report title	Midland Metro Limited Accounts 2021/22
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: Laura.Shoaf@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Linda Horne, Executive Director of Finance and Business Hub 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 the annual accounts for Midland Metro Limited for the year ended 31 March 2022.

(2) Note that the independent auditors issued an unqualified audit opinion for the year ended 31 March 2022.

(3) Note that Midland Metro Limited's accounts were filed with Companies House within the statutory timetable.

1.0 Purpose

1.1 This report has been prepared to enable Audit, Risk & Assurance Committee to retrospectively approve the annual accounts of Midland Metro Limited for the financial year ended 31 March 2022.

1.2 Members are asked to note that because the Committee’s November 2022 meeting was cancelled, Midland Metro Limited were not able to seek the Committee’s approval of the accounts prior to them being filed with Companies House in line with the statutory timetable.

2.0 Background

2.1 West Midlands Combined Authority's wholly owned subsidiary, Midland Metro Limited (MML) was established in 2017. The company was created to take over the day-to-day running of Midland Metro trams in the West Midlands region and is expected to generate profits in the longer term which will be channelled back into the network for the benefit of passengers and the local economy.

2.2 Passenger revenues began to recover during 2021/22 following the easing of Coronavirus restrictions although it was a challenging year for the company as a result of cracks that were identified on the trams. Services were consequently suspended for periods during the year. The next financial year will see the continuation of the wider network expansion plans.

3.0 Annual Accounts

3.1 MML Board has received regular financial monitoring updates throughout 2021/22. The final outturn position for 2021/22 was reported to MML Board on 29 November 2022.

3.2 The accounts for 2021/22 are attached as an appendix for noting. The audit process has been completed and the auditors have issued an unqualified audit opinion on the accounts. The audit findings in relation to significant audit risks are summarised in the table below:

Table 1: MML Accounts 2021/22 – Audit Findings

Key audit areas	**Conclusion**
Revenue recognition	No significant issues noted. It is considered that revenue is materially recognised appropriately and in line with the applicable accounting standards.
Management override of controls	No issues have been identified.
Going Concern	From our review we deem management’s assessment of going concern to be consistent with the supporting documents and no

	disclosures are required within our audit report.
Transactions with Related Parties	From our review, the related party balances and transactions are not materially misstated within the financial statements.
Accrued and deferred income	From our review we deem management's assessment of going concern to be consistent with the supporting documents and no disclosures are required within our audit report.

3.3 Members are asked to note that the company's accounts for 2021/22 were filed with Companies House within the statutory timeframe.

4.0 Financial Implications

4.1 The financial implications are covered within the body of this report and the attached annual accounts reflect MML's results for the year ended 31 March 2022.

5.0 Legal Implications

5.1 Production of these accounts is a statutory requirement.

6.0 Equalities Implications

6.1 Alternative formats for these accounts are available upon request.

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 MML financial report 2021/22

10.2 Audit Findings Report

Registered number: 10932342

MIDLAND METRO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

MIDLAND METRO LIMITED

COMPANY INFORMATION

Directors	L M Shoaf S A McAleavy (resigned 15 April 2022) L K Horne
Company secretary	S G Allison
Registered number	10932342
Registered office	16 Summer Lane Birmingham B19 3SD
Independent auditor	Williamson & Croft Audit Limited York House 20 York Street Manchester M2 3BB

MIDLAND METRO LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022

The Directors present their strategic report for the year ended 31 March 2022.

Business review

The company completed its third full year of operations. The company has endured a challenging year as a result of the cracks that were identified on the trams. As a consequence Midland Metro Limited made the difficult decision to suspend tram services at periods during the year.

Permanent repairs were required with all the 2GT fleet taken out of service. The safety of our customers and colleagues is our priority and this will never be compromised.

The easing of restrictions from the Government in April and May 2021 saw passenger revenues rebound to 60%-65% business as usual. During October 2021 passenger revenues recovered to 90% business as usual. Midland Metro Limited has been supported by light rail support grant provided by the Department of Transport.

Within the next financial year, Midland Metro Limited will see the opening of two new extensions as part of the wider network expansion plans.

Key performance indicators

Operational performance is measured through a number of KPIs for the year since the company took over operations including punctuality and reliability.

During the period to 31 March 2022, the company aimed to achieve a target of 98% of the scheduled kilometres according to the operational timetable. During the period the company achieved an average of 85.61%. Performance improved over the course of the period and continues to improve post year-end.

Total revenue from fare income and other revenues (e.g. advertising) came to £10.3m (2021 - £7.6m), which in management's view equated to 20% below the expected trading level in a normal year. The 2021 revenue was a result of Covid-19 disruption to trade.

The operating loss before other operating income for the period amounted to £9.3m (2021 - £8.17m) which is covered by a subsidy received from the parent company and grant subsidies from the Department of Transport.

The company’s operating cash has remained strong throughout the period. The balance sheet on page 11 of the financial statements show’s the company’s financial position at the period-end.

Principal risks and uncertainties

The key risks and uncertainties to the company are:

Management of Revenues – this is the company's major risk as it derives its income from passenger fares and other third party revenue e.g. advertising. The company closely monitors passenger numbers, fare income, and the public transport market in the region in order to implement strategies to maximise its income.

Controlling costs – the major cost risks for the company are around traction power and staff costs. A purchasing strategy is in place to mitigate against any unforeseen increases in traction power costs, and staff costs are closely monitored.

Other Risks

The company has exposure to a number of financial risks which are managed with the purpose of minimising any potential adverse effects on the company's performance. The Board has the following policies for managing these risks:

Price risk

The company is able to adjust its fares as required to match any potential increases in costs.

Credit risk

Credit risk is low as revenue is mainly earned from sales on tram, with other counterparties being low risk entities. Cash investments are with institutions of a suitable credit quality.

Liquidity and cash flow risk

The company has entered into a short term borrowing facility agreement in order to manage its short term cash requirements.

Future developments

Over the coming years the company is anticipated to grow substantially with the opening of extensions to Centenary Square, Edgbaston, Birmingham Eastside and Wednesbury to Brierley Hill, with a further extension being planned to Solihull.

Going concern

Management has produced forecasts that reflect likely downside scenarios as a result of the suspension to service. The company is optimistic that when services resume, recovery will rebound strongly to pre-pandemic levels. In addition the company has received indicative grants from the Department of Transport through to 5th October 2022.

In addition, the company has obtained a letter of comfort from its parent undertaking, West Midlands Combined Authority stating for a period of at least 12 months from the date of the signing of these financial statements they will continue to provide the financial support to the company. This letter reiterates the terms and conditions of the Public Service Contract between West Midlands Combined Authority and the company. As such, the directors are satisfied that the company has adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these financial statements.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2022

Post Balance Sheet Events

As at the balance sheet date, Midland Metro Limited were aware that a grant from the Department for Transport covering the period 6th April 2022 to 5th October 2022 was likely, this has now been received for a sum of £2.7 million.

The overall financial impact is being established but the arrangement noted within note 2.2 is still in place and has no impact on going concern.

This report was approved by the Board and signed on its behalf.

....

L K Horne

Director

Date: 7 December 2022

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2022

The directors present their report and the financial statements for the year ended 31 March 2022.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity

The principal activity of the company is the operation and maintenance of the Midland Metro line 1 light rail system between Birmingham and Wolverhampton in accordance with the public service obligation and other terms of the Public Service Contract (PSC) with West Midlands Combined Authority.

Results and dividends

The loss for the year, after taxation, amounted to £13 thousand *(2021 - loss £14 thousand)*.

Interim dividends of £Nil have been paid during the year. The directors do not recommend the payment of a final dividend.

Directors

The directors who served during the year were:

L M Shoaf
S A McAleavy (resigned 15 April 2022)
L K Horne

Disclosure of information to the auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

As at the balance sheet date, Midland Metro Limited were aware that a grant from the Department for Transport covering the period 6th April 2022 to 5th October 2022 was likely, this has now been received for a sum of £2.7 million.

.

The overall financial impact is being established but the arrangement noted within note 2.2 is still in place and has no impact on going concern.

Auditor

In accordance with section 485 of the Companies Act 2006, a resolution proposing that Williamson and Croft Audit Limited be appointed as auditor of the company for the year ended 31 March 2022 was passed at a General Board Meeting on 23 March 2022.

A resolution for the re-appointment of Williamson and Croft Audit Limited as auditors of the company for the year ended 31 March 2023 is to be proposed at a forthcoming General Board meeting.

This report was approved by the Board and signed on its behalf.

....
L K Horne
Director

Date: 7 December 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDLAND METRO LIMITED

Opinion

We have audited the financial statements of Midland Metro Limited (the 'company') for the year ended 31 March 2022, which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 102 “The Financial Reporting Standards applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practices).
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial Year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on Which We Are Required to Report by Exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we have given consideration to the control environment (including management's own process for identifying and assessing risks) as well as the nature of the entity, the industry in which it operates and the underlying performance. Consideration was also given to the attitudes and incentives of management to commit fraud. We determined that the greatest potential for fraud existed in the following areas: timing of recognition of income; value of investment properties; and posting of unusual journals and complex transactions. In line with all audits performed under International Standards on Auditing (UK), we planned and performed specific procedures to respond to the risk of management override of controls.

We also obtained an understanding of the applicable laws and regulations that the company has to abide by, through discussions with management and those charged with governance, as well as commercial knowledge of the sector and statutory legislation. We paid particular focus to those laws and regulations that had the potential to materially impact the amounts and disclosures within the financial statements. The key laws and regulations we identified were the UK Companies Act 2006, FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice), health and safety legislation, tax legislation, employment law and General Data Protection Regulation. The company also falls under the regulatory body UK Tram which regulates the light rail sector in the UK.

After our initial risk assessment, we performed the following procedures to detect material misstatements in respect of irregularities arising due to fraud or error:

- Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, and evaluating the business rationale of significant transactions outside the normal course of business;
- Reviewing financial statement disclosures and testing these against supporting documentation to assess compliance with applicable laws and regulations;
- Assessing key accounting estimates within the financial statements in order to assess their reasonableness and determine whether there were any indications of management bias in the estimates;
- Reviewing minutes of meetings of those charged with governance;
- Making enquiries of management as to whether they are aware of any alleged, suspected or actual fraud during the year;

We also performed procedures to satisfy ourselves regarding compliance with applicable laws and regulations, including:

- Making enquiries of management and those charged with governance if there were any actual and potential litigation and claims;
- Reviewing legal and professional fees incurred in the year for indicators of any litigation or claims against the company;
- Reviewing minutes of meetings of those charged with governance; and
- Reviewing correspondence with relevant legal authorities.

All audit team members were made aware of the applicable laws and regulations, as well as potential fraud risks during the planning stage of the audit and this was discussed at the audit team planning meeting. It was therefore determined that team members all had the relevant awareness and competence to identify any instances of non-compliance with relevant laws and regulations or fraud.

There are, however, inherent limitations to our above audit procedures. Auditing standards only require us to enquire of the Directors and management regarding non-compliance with laws and regulations, as well as review regulatory and legal correspondence (if there is any). It is therefore possible that instances of non-compliance could be missed, particularly where the law in itself is far removed from any financial transactions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to micro-entities. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDLAND METRO LIMITED

Tor Stringfellow (Senior statutory auditor)

for and on behalf of

Williamson & Croft Audit Limited

York House
20 York Street
Manchester
M2 3BB
7 December 2022

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2022

	Note	**2022** **£000**	*2021* *£000*
Turnover	4	**10,312**	*7,592*
Cost of sales		**(15,882)**	*(12,525)*
Gross loss		**(5,570)**	*(4,933)*
Administrative expenses		**(3,639)**	*(3,207)*
Other operating income	5	**9,250**	*8,177*
Operating profit	6	**41**	*37*
Interest payable and expenses	9	**(41)**	*(37)*
Profit before tax		**-**	*-*
Tax on profit	10	**(13)**	*(14)*
Loss for the financial year		**(13)**	*(14)*
Other comprehensive income for the year			
Other comprehensive income		**-**	*-*
Other comprehensive income for the year		**-**	*-*
Total comprehensive income/(loss) for the year		**(13)**	*(14)*

There were no recognised gains and losses for 2022 or 2021 other than those included in the statement of comprehensive income.

The notes on pages 14 to 26 form part of these financial statements.

All amounts relate to continuing activities.

BALANCE SHEET
AS AT 31 MARCH 2022

	Note		2022 £000		*2021* *£000*
Fixed assets					
Tangible assets	11		**380**		*253*
			380		*253*
Current assets					
Stocks	12	**951**		*822*	
Debtors: amounts falling due within one year	13	**1,575**		*1,505*	
Cash at bank and in hand	14	**834**		*1,146*	
		3,360		*3,473*	
Creditors: amounts falling due within one year	15	**(3,754)**		*(3,740)*	
Net current liabilities			**(394)**		*(267)*
Total assets less current liabilities			**(14)**		*(14)*
Provisions for liabilities					
Deferred tax	17	**(15)**		*(2)*	
			(15)		*(2)*
Net liabilities			**(29)**		*(16)*
Capital and reserves					
Profit and loss account			**(29)**		*(16)*
			(29)		*(16)*

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

....
L K Horne
Director

Date: 7 December 2022

The notes on pages 14 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2022

	Profit and loss account	Total equity
	£000	£000
At 1 April 2021	(16)	(16)
Comprehensive income for the year		
Loss for the year	(13)	(13)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	(13)	(13)
Total transactions with owners	-	-
At 31 March 2022	(29)	(29)

The notes on pages 14 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2021

	Profit and loss account	Total equity
	£000	£000
At 1 April 2020	(2)	(2)
Comprehensive income for the year		
Loss for the year	(14)	(14)
Other comprehensive income for the year	-	-
Total comprehensive income for the year	(14)	(14)
Total transactions with owners	-	-
At 31 March 2021	(16)	(16)

The notes on pages 14 to 26 form part of these financial statements.

1. General information

Midland Metro Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is 16 Summer Lane, Birmingham, B19 3SD. The nature of the company's operations are set out in the business review on page 1.

The company is a wholly owned subsidiary of West Midlands Combined Authority. Copies of the Authorities financial statements, the only entity preparing group financial statements which include Midland Metro Limited, are available to the public on the Authorities website www.wmca.org.uk.

The company was incorporated on 24 August 2017 and was dormant until it commenced trading on 24 June 2018.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and the company is included in the consolidation. The company has therefore taken advantage of the exemption in Section 7 Statement of cash flows of presenting of a statement of cash flows and related notes.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going Concern

Management has produced forecasts that reflect likely downside scenarios as a result of the suspension to service. The company is optimistic that when services resume, recovery will rebound strongly to pre-pandemic levels. In addition the company has received indicative grants from the Department of Transport through to 5th October 2022.

In addition, the company has obtained a letter of comfort from its parent undertaking, West Midlands Combined Authority stating for a period of at least 12 months from the date of the signing of these financial statements they will continue to provide the financial support to the company. This letter reiterates the terms and conditions of the Public Service Contract between West Midlands Combined Authority and the company. As such, the directors are satisfied that the company has adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these financial statements.

2. Accounting policies (continued)

2.3 Revenue recognition

Revenue is recognised by reference to the stage of completion of the customer's travel or service provided under contractual arrangement as a proportion of total services to be provided. Advertising revenue is recognised when the service is provided.

2.4 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.5 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

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

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

2.6 Government grants

Grants are accounted for under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

2.7 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2. Accounting policies (continued)

2.8 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.9 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.10 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.11 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2. Accounting policies (continued)

2.11 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Plant and machinery	- 5-13 years straight line basis
Fixtures and fittings	- 4 years straight line basis
Computer equipment	- 3 years straight line basis

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.12 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.13 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.14 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.15 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2. Accounting policies (continued)

2.16 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.17 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

The directors do not consider that there are any complex transactions that are not covered by the accounting policies outlined in note 2 that required any judgements and hence disclosure.

4. Turnover

Revenue is stated net of value added tax where applicable and is wholly derived within the United Kingdom.

5. Other operating income

	2022 £000	*2021* *£000*
Other operating income	**1,328**	*-*
Government grants receivable	**4,194**	*7,593*
Job Retension Scheme	**-**	*205*
Subsidy receivable	**3,728**	*379*
	9,250	*8,177*

Other operating income relates to the reimbursement of intercompany recharges received from West Midlands Combined Authority.

Subsidy receivable is in respect of the subsidy received from West Midlands Combined Authority under the terms of the Public Service Contract (PSC).

6. Operating profit

The operating profit is stated after charging:

	2022 £000	*2021* *£000*
Other operating lease rentals	**47**	*50*
Depreciation	**112**	*135*

7. Auditor's remuneration

	2022 £000	*2021* *£000*
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**14**	*24*

8. Employees

Staff costs were as follows:

	2022 **£000**	*2021* *£000*
Wages and salaries	**7,162**	*6,203*
Social security costs	**661**	*564*
Cost of defined contribution scheme	**182**	*164*
	8,005	*6,931*

The average monthly number of employees, including the directors, during the year was as follows:

	2022 **No.**	*2021* *No.*
Operations	**159**	*147*
Engineering	**56**	*43*
Management and administration	**27**	*28*
	242	*218*

The directors of the company are remunerated by West Midlands Combined Authority. They did not receive any remuneration in respect of their services to the company.

9. Interest payable and similar expenses

	2022 **£000**	*2021* *£000*
Loans from group undertakings	**41**	*37*
	41	*37*

10. Taxation

	2022 £000	*2021* *£000*
Corporation tax		
Current tax on profits for the year	-	*13*
	-	*13*
Total current tax	-	*13*
Deferred tax		
Origination and reversal of timing differences	9	*1*
Changes to tax rates	4	*-*
Total deferred tax	13	*1*
Taxation on profit on ordinary activities	13	*14*

Factors affecting tax charge for the year

The tax assessed for the year is the same as *(2021 - the same as)* the standard rate of corporation tax in the UK of 19% *(2021 - 19%)* as set out below:

	2022 £000	*2021* *£000*
Effects of:		
Expenses not deductible for tax purposes	2	*1*
Adjustments to tax charge in respect of prior periods	-	*5*
Tax rate changes	4	*-*
Thin cap adjustments	7	*8*
Total tax charge for the year	13	*14*

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

11. Tangible fixed assets

	Plant and machinery £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost or valuation				
At 1 April 2021	**317**	**3**	**308**	**628**
Additions	**45**	**21**	**173**	**239**
At 31 March 2022	**362**	**24**	**481**	**867**
Depreciation				
At 1 April 2021	**77**	**1**	**297**	**375**
Charge for the year on owned assets	**43**	**5**	**64**	**112**
At 31 March 2022	**120**	**6**	**361**	**487**
Net book value				
At 31 March 2022	**242**	**18**	**120**	**380**
At 31 March 2021	*240*	*2*	*11*	*253*

12. Stocks

	2022 £000	*2021 £000*
Tram spares & consumables	**951**	*822*
	951	*822*

The cost of inventories expensed in the year and included in operating costs was £402,236 (2021 - £601,864). Impairment provision at the year-end relating to damaged or obsolete inventories amounted to £Nil (2020 - £Nil).

13. Debtors

	2022 **£000**	*2021* *£000*
Trade debtors	**245**	*33*
Amounts owed by group undertakings	**495**	*237*
Other debtors	**25**	*137*
Prepayments and accrued income	**810**	*1,098*
	1,575	*1,505*

Included in prepayments and accrued income was an amount of £358,383 (2021 - £253,978) attributable to a group undertaking.

14. Cash and cash equivalents

	2022 **£000**	*2021* *£000*
Cash at bank and in hand	**834**	*1,146*
	834	*1,146*

15. Creditors: Amounts falling due within one year

	2022 **£000**	*2021* *£000*
Payments received on account	**100**	*100*
Trade creditors	**475**	*490*
Amounts owed to group undertakings	**538**	*1,810*
Corporation tax	**-**	*14*
Other taxation and social security	**734**	*141*
Other creditors	**54**	*12*
Accruals and deferred income	**1,853**	*1,173*
	3,754	*3,740*

16. Financial instruments

	2022 £000	*2021* *£000*
Financial assets		
Financial assets measured at fair value through profit or loss	**834**	*1,146*
Financial assets that are debt instruments measured at amortised cost	**1,344**	*1,000*
	2,178	*2,146*
Financial liabilities		
Financial liabilities measured at amortised cost	**(2,920)**	*(3,485)*

Financial assets measured at fair value through profit or loss comprise of cash and cash equivalents.

Financial assets that are debt instruments measured at amortised cost comprise trade debtors, amounts owed by group undertakings and accrued income.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings, other creditors and accruals and deferred income.

17. Deferred taxation

	2022 £000
At beginning of year	**(2)**
Charged to profit or loss	**(13)**
At end of year	**(15)**

The provision for deferred taxation is made up as follows:

	2022 £000	*2021* *£000*
Accelerated capital allowances	**(37)**	*(2)*
Tax losses carried forward	**22**	-
	(15)	*(2)*

18. Share capital

	2022 £	*2021* *£*
Authorised, allotted, called up and fully paid		
100 *(2021 - 100)* Ordinary shares of £1.00 each	**100**	*100*

19. Contingent liabilities

There were no contingent liabilities or guarantees at the end of the year.

20. Capital commitments

There were no capital commitments at the end of the year.

21. Commitments under operating leases

At 31 March 2022 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2022 **£**	*2021* *£*
Not later than 1 year	**23,322**	*35,985*
Later than 1 year and not later than 5 years	**4,338**	*2,998*
	27,660	*38,983*

22. Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard 102 Section 33.1A from the requirement to disclose transactions with group entities that are wholly owned members of the group.

23. Post balance sheet events

As at the balance sheet date, Midland Metro Limited were aware that a grant from the Department for Transport covering the period 6th April 2022 to 5th October 2022 was likely, this has now been received for a sum of £2.7 million.

The overall financial impact is being established but the arrangement noted within note 2.2 is still in place and has no impact on going concern.

24. Ultimate Parent Company

The company is a subsidiary of West Midlands Combined Authority which is the ultimate parent company incorporated in Great Britain. The consolidated accounts are available on www.wmca.org.uk.

West Midlands
Combined Authority

Final Internal Audit Report:

WM2041 Delivery Programme (Environmental Recovery)

2022-2023

Report Date: 19 October 2022

Report Distribution: Jacqueline Homan – Head of Environment
Richard Rees - Environment Programme Manager

Delivered by City of Wolverhampton Council – Audit Services

1. Executive summary

Introduction

An audit of the WM2041 Delivery Programme was undertaken as part of the approved internal audit plan.

The WMCA approved the “WM2041: A Programme for Implementing an Environmental Recovery” approach in June 2020 to make a commitment to producing four five-year delivery plans in conjunction with stakeholders with interim carbon budgets and other metrics in supporting of delivering the net zero carbon target for the West Midlands by 2041.

The WM2041 principles as part of delivering the above are:

- We will change our economy without leaving anyone behind
- We will invest in the resilience of our places
- We will use our industrial past to create a new future
- We will create places and connections that help us to meet the climate challenge
- We will decouple prosperity from the consumption of energy and resources

The Five-Year Plans aim to provide guidance on the types of measures required for implementation to reach net zero by 2041, including understanding key areas for investment in programmes of delivery and developing a policy to support the 2041 target. The first Five Year Plan covering the period 2021 to 2026 had been established and informed the current programme of delivery in the achievement of the WM2041 net zero commitment, stating goals and objectives and key areas of action required.

Objectives, potential risks, and scope of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following:

Objectives:	To seek assurance appropriate governance, monitoring and reporting arrangements have been established in support of the delivery of the WM2041 Delivery Programme, including carbon reduction.
Potential Risks:	• Poor governance, monitoring and reporting arrangements may not provide the required information and assurance to effectively maintain oversight and manage progress with delivery. • Climate change challenges, partnership engagement issues and progress with delivery may not be highlighted on a timely basis within governance, monitoring, and reporting arrangements.
Scope:	The scope of the review included: • Governance arrangements • Monitoring and reporting arrangements
Limitations to the scope of our audit:	The review was limited to high level coverage of the above areas regarding WMCA led arrangements. Period of coverage was 2021-2022 to date.

Overall conclusion

Our audit provides **Satisfactory** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

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 exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified

We rate each issue identified based on the following:

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

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

- A WM2041 / Five Year Plan specific risk register was yet to be established to capture programme delivery risks and issues within one central record for review and reporting purposes.

- Programme delivery reporting within governance arrangements required improvement to include best practice project management / monitoring and evaluation information and more visible links to the goals and objectives within the Five-Year Plan.

- Stakeholder engagement strategy and communications plan were yet to be fully established recognising best practice and recommendations from independent research commissioned by the WMCA regards improvements in focus and objectives. Correlation between various existing communications documentation and the tracker maintained to a clear plan / strategy was not sufficiently demonstrated. Current strategy referred to 2020 and appeared in requirement of updating.

In addition, we have raised one issue classified as **green** which is detailed in section two of this report.

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

Examples of good practice identified

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

- Suitable governance and oversight arrangements had been established for the WM2041 net zero commitment and delivery of the first Five Year Plan within WMCA governance arrangements supported by engagement with wider stakeholders and partners (both public sector and private sector).

- Governance and oversight as well as direction are provided by the Environment and Energy Board with membership consisting of the Portfolio holder as Chair, Lead Cabinet Members for Climate Change from the constituent Local Authorities and a Member of the WMCA Overview and Scrutiny Committee.

- Engagement with wider stakeholders in support of the above governance and oversight was evident through the operation of the Energy Capital Board reporting to the Environment and Energy Board.

- The Environment Team and Energy Capital Team within the Public Service Reform Directorate reporting to the Director of Public Service Reform support the above governance arrangements through reporting on the delivery programme in respect of the WM2041 net zero commitment and Five-Year Plan.

- Reporting to the Environment and Energy Board was suitably evidenced within meeting records and supporting report packs covering the various initiatives, and projects within the programme delivery plan. Progress updates were routinely provided within reports presented.

- An Environment and Energy Programme update detailing the aims and current status of progress for each key theme was reported to the Board in September 2021.

- An Environment Team and Energy Capital Implementation Plan had been produced in January 2021 clearly detailing High Level Deliverables and associated 21 priority workstreams. Best project monitoring and delivery progress information was included regarding the impacts, outputs, and outcomes as well as next steps and risks for each Deliverable. Milestones within timelines regarding delivery had also been stated.

- An Annual Report had been commissioned to undertake a high-level review of first year (2021-2022) progress with implementation of strategies as part of delivery of the Five-Year Plan as well as outline any potential future updates to the next iteration of the Plan. The aim of the Annual Report is to ensure performance is adequately measured and that sufficient and robust action is taking place to achieve the WM2041 ambitions. The first report was scheduled for March 2022.

Acknowledgement

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

2. Findings and recommendations

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

1. Risk management

Findings:
Whilst risks had been included in the Environment Team and Energy Capital Implementation Plan (January 2022) for each High-Level Deliverable, a best practice risk register to support the management and delivery of the WM2041 commitment and Five-Year Plan, was yet to be established. In addition, although reporting to the Environment and Energy Board highlighted progress with delivery and initiatives, capturing related issues where they arose within a central record was yet to be established.

Implications:
Structured risk management processes may not be fully embedded within the governance, monitoring, and reporting arrangements leading to a lack of effective reporting and escalation of risks, and mitigating action being taken.

Recommendations:

i. Risk management should be suitably embedded within the governance, monitoring, and reporting arrangements supporting achievement of the WM2041 commitment and deliver of the Five-Year Plan.

ii. A dedicated risk register should be established following the WMCA's Strategic Risk Management Framework as applicable at organisational level as well as best practice for the identification, assessment, and treatment of risk.

iii. Based on suitably defined reporting and escalation thresholds, key risks should be regularly reported on within both management and governance arrangements.

iv. Risks identified for each High-Level Deliverable and associated workstreams should be captured within the above risk register i.e. top three risks.

v. Issues should also be captured, monitored, and reported on as part of the above risk management arrangements.

Agreed Actions:

- Produce best practice risk register capturing HLD and associated workstream risks and issues that will be reported on within management and governance arrangements.

Responsible Officer: Richard Rees and Kate Ashworth

Target Date: December 2022

2. Programme delivery reporting

Findings:
We found that programme delivery reporting to the September 2021 meeting of the Environment and Energy Board, required improvement. Whilst this provided high level information about each project / deliverable regarding aim and progress, programme reporting did not as yet include best practice key information regards key achievements, next steps and risks and issues. Reference to the goals and objectives within the Five-Year Plan against each project / deliverable could also have been made more explicit.

We noted that the Environment Team and Energy Capital Implementation Plan established in January 2022 would provide a more informative basis for programme delivery updates as included greater project management, and monitoring and evaluation best practice information regarding impacts, outputs, and outcomes as well as next steps and risks supported by a milestones and delivery timeline. However, clearer links back to the Five-Year Plan aims and objectives as well as any specific actions or recommendations stated was required.

We also found that reporting could also be improved to demonstrate monitoring of investment progress against the levels of investment stated as required within the Five-Year Plan.

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

Implications:
Programme reporting may not provide the required information and assurance to effectively maintain oversight and manage progress with delivery.

Recommendations:

i. Consideration should be given to establishing in-year programme delivery management information and reporting (in addition to current annual reporting) wherever possible to ensure that this provides effective oversight and supports governance, management, and decision-making arrangements, suitably covering progress made with delivery activity in support of the achievement of the WM2041 commitment and specifically the goals and objectives of the Five-Year Plan.

ii. As part of the above, monitoring of investment achieved against the levels of investment stated in the Five-Year Plan should be undertaken and reported on.

iii. Within programme plans and reporting greater reference to the specific goals and objectives included in the Five-Year Plan, should be made to demonstrate a clear link between goals and objectives and each delivery activity i.e. High Level Deliverables.

iv. The Environment Team and Energy Capital Implementation Plan and the key information included should be used as a suitable basis for the above reporting on delivery within wider governance over and above WMCA SLT.

v. An action log to support the Five-Year Plan should be established to capture actions and recommendations within the Five-Year Plan and any arising from the Implementation Plan. A best practice format should be utilised to include actions, owners, timescales for completion and progress updates.

Agreed Actions:

- Environment Team and Energy Capital Implementation Plans, which incorporate the structure of HLDs, will be updated and made available to each Environment & Energy Board meeting.
- An annual progress report providing updates on delivery of Five Year Plan goals, objectives and investment achieved will be produced.

Responsible Officer: Jacqueline Homan and Cheryl Hiles

Target Date: January 2023

3. Stakeholder engagement and communication

Findings:
We noted that whilst several documents (Communications Plan, Action Tracker, and Stakeholder register) covering communications were in operation, am overarching up to date Stakeholder Engagement and Communications Strategy and Plan was yet to be established.

This was reflected in the outcome of WMCA commissioned independent research regards recommendations for change that plans / strategy require more focus and clarity on objectives. We also noted that the current Communications Plan indicated that it requires updating in various areas as well as referred to programme milestone dates within 2020. Whilst the tracker reflects various activities undertaken, due to the lack of an overarching and up to date Plan / Strategy, determination that actions related to clearly defined and focused objectives and aligned with the Five-Year Plan was not possible, albeit generally actions clearly appeared relevant to climate change related issues.

Implications:
Not clearly defining an overarching approach to stakeholder engagement and communications may adversely impact on achievement of the regional, inclusive, and cross sector approach to achievement of the WM2041 commitment and delivery of the Five-Year Plan.

Recommendations:

i. An overarching and Stakeholder Engagement and Communications Strategy and Plan should be developed encompassing existing communications and engagement mechanisms as well as reflect the outcome of WMCA commissioned independent research recommendations regards improved focus and clarity in objectives. Once

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

established the Strategy and Plan should be presented to the responsible governance forum for its approval and minuted as approved.

ii. Once established, the Strategy and Plan itself should be periodically reviewed and updated to ensure remains current and up to date. Review periods could correlate with review of key WM2041 policy, strategy, and governance documentation.

iii. Subsequently, regular reporting based on the developed Strategy and Plan and associated tracked activity should be undertaken within supporting governance and management arrangements.

Agreed Actions:

- To update the Stakeholder Engagement and Communicatons Strategy and Plan to align with the tracker for campaign and communications activity. The Plan will be reviewed and updated annually alongside the annual Five Year Plan progress report.

Responsible Officer: Steve Bowyer	**Target Date:** Jan 2023

Action is advised to enhance risk control or operational efficiency
Green

4. Governance

Findings:
Whilst meeting records clearly indicated the governance undertaken and the role provided by the Environment and Energy Board, the proposed revised terms of reference for the Environment and Energy Board were yet to be finalised and approved.

It was noted that revisions were proposed in June 2020 to consider the future focus of the Environment Board, including agreeing the change of name to the Environment & Energy Board and reviewing Board membership. Further, the need to recognise the implications of the Single Assurance Framework Project for the previously named Environment Board.

Implications:
In the absence of finalised and approved terms of reference, it may be more difficult to clearly define the role of the Board in respect of the WM2041 commitment and delivery of the Five-Year Plan.

Recommendations:

i. The terms of reference for the Environment and Energy Board should be reviewed and revised to ensure clearly reflects current roles and responsibilities as well as clear reference to the WM2041 commitment and delivery of the Five-Year Plan.

ii. Once reviewed, the terms of reference should be evidenced as approved by the Board within meeting minutes and within version control.

iii. Subsequently, the terms of reference should be reviewed and approved on an annual basis, and evidenced within minutes as approved.

Agreed Actions:

- Review the terms of reference for the Environment and Energy Board and ensure these are reviewed and approved annually by the Board.

Responsible Officer: Craig Evans	**Target Date:** Jan 2023

Limitations inherent to the internal auditor's work

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

Internal control

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

Responsibilities of management and auditors

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

Stage	Date
Draft issued	25 April 2022
Revised draft issued	13 September 2022
Final issued	19 October 2022
ARAC reporting date	23 May 2022
ARAC meeting date	28 June 2022

Audit, Risk and Assurance Committee Meeting

Date	24 January 2023
Report title	Internal Audit Update – December 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 Combined Authority 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.

1.2 It needs to be brought to the attention of the Committee, that an unforeseen absence within the City of Wolverhampton Council's audit team, is having an impact on the delivery of the internal audit plan in line with the original indicative workplan. Therefore, a number of options for the delivery of the remainder of the plan by the originally estimated end date, are currently being explored, and will be reported back to the Committee at the earliest opportunity.

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 Final Internal Audit Report: WM2041 Delivery Programme (Environmental Recovery) – Appendix A

West Midlands
Combined Authority

Internal Audit Update Report – December 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 2022 - 2023 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.

Auditable area	AAN Rating	Status and level of assurance	ARAC Meeting (indicative)
2021-2022 Internal Audit Reviews previously reported			
ICT Strategy	High	Final issued – Satisfactory	July 2022
Dudley Interchange	Medium	Final issued – Satisfactory	July 2022
Affordable Housing Delivery Vehicle	High	Final issued – Satisfactory	July 2022
2021-2022 Internal Audit Reviews completed and reported for the first time			
WM2041 Delivery Programme (Environmental Recovery) Report attached at **Appendix A**	High	Final issued – Satisfactory	November 2022
Cyber Security	High	Draft issued – Satisfactory (awaiting director sign-off)	January 2023

As referred to in the attached covering report, an unforeseen absence within the City of Wolverhampton Council's audit team, is having an impact on the delivery of the internal audit plan at this stage of the year, and in line with the original indicative workplan. Therefore, the plan is currently being reviewed while a number of options for the delivery of the remainder of the plan by the originally estimated end date, are explored.

The below table details the remaining audits in the current years audit plan. At the time this report was produced, those rows highlighted in green should still be completed. However, the completion of those in amber, some of which are underway, are at this point in time are potentially unlikely to be completed by the year-end and are where the options referred to above are currently being explored. Once resolved these will be brought to the attention of the committee. The rows highlighted in blue indicate audit reviews, which following a preliminary assessment by WMCA, are to be carried forward to the following year.

Audit
Organisational Change
Single Commissioning Framework
Adult Education Budget – Provider Performance
Key Financial Systems Combined Review – Accounts Payable, Accounts Receivable, Treasury Management, Budgetary Control and General Ledger
Key Financial System – Payroll
Adult Education Budget - Procurement
Procurement Exemptions
IR35
Bromsgrove Rail Station
Bid Management
Land and Tenant Management
Corporate Asset Acquisition and Disposal Framework
Business Continuity
Investment Programme: Monitoring and Evaluation

Also, the following two reviews initially included in the Internal Audit Plan are no longer required during the year, with further details provided below:

Inclusive Growth Toolkit - the toolkit is still in development and with the lead officer for it having now left WMCA, the work programme has been suspended.
Environmental Management System - this was initially to be audited bi-annually to satisfy ISO requirements but it is understood that WMCA are not continuing to maintain the accreditation.

4 *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 in key areas.

Progress Monitoring Update

Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Number Progressed*
				Red	Amber	Green	
Human Resources Pre-employment checks	N/A	27/11/20	31/12/20	-	2	-	2
Environmental Management System	Satisfactory	06/01/21	30/06/21	-	1	1	2
Digital Retraining Fund	Satisfactory	10/06/21	01/11/21	-	3	1	4
Corporate Complaints Process	Satisfactory	12/10/21	01/01/22	-	3	4	7
Key Financial Systems	Substantial/ Satisfactory	07/03/22	30/06/22	-	5	4	7
Risk Management	Satisfactory	10/06/21	21/07/22	-	1	3	4
WMCA Devolved Adult Education Budget	Satisfactory	07/09/21	30/09/22	-	3	2	5
Longbridge Park and Ride Income Management and Charging Arrangements	Limited	30/03/22	30/11/22	1	2	-	2
ICT Strategy	Satisfactory	29/03/22	31/08/22	-	1	3	3
Dudley Interchange	Satisfactory	13/05/22	31/07/22	-	3	-	3
Affordable Housing Delivery Vehicle	Satisfactory	20/06/22	30/04/23	-	1	-	0
MML	n/a	22/06/22	31/12/22	-	1	-	0
WM2041	Satisfactory	19/10/22	31/01/23	-	3	1	2

* The number of recommendations completed reflects the opinion of the auditee only and reflects position as at 31st December 2022.

The target date for delivery of audit actions has been met in most cases, however delays to the programming of financial reports is impacting on the delivery of the remaining actions from the 21/22 audit of Key Financial Systems. A manual workaround has been implemented in the interim. Delivery of the remaining action from the Longbridge review continues to be progressed by the operational team, and the action contained within the ICT strategy is reliant on engagement with the financial planning process, with completion expected by end February 2023.

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Audit, Risk & Assurance Committee

Date	24 January 2023
Report title	Draft Internal Audit plan 2023/24
Accountable Chief Executive	Laura Shoaf, Chief Executive of the WMCA Email: Laura.Shoaf@wmca.org.uk
Accountable Employee	Helen Edwards, Director, Law and Governance Email: Helen.Edwards@wmca.org.uk
Report has been considered by	Strategic Leadership Team, 14th December 2022

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

Consider and agree the proposed audits contained in the draft, risk based Internal Audit plan for 2023/24.

1. Purpose

1.1 The purpose of internal audit is to provide the organisation with an independent and objective opinion on the effectiveness of its risk management, control, and governance arrangements and the effectiveness of management arrangements in delivering its agreed objectives.

1.2 This document provides ARAC with a draft risk-based internal audit plan, and is based upon an assessment of assurance needs, used to direct internal audit resources to those aspects of the organisation which are assessed as generating the greatest risk to the achievement of its objectives.

1.3 The Strategic Leadership Team has been consulted on, and have agreed to the proposed audits contained within this plan as part of its development, in advance of presenting it to Audit, Risk and Assurance Committee.

2. Background

2.1 Internal Audit is a statutory requirement for all Local Authorities. The audit service is provided in accordance with the Local Government Act (1972), the Accounts and Audit Regulations 2015, as amended and the Public Sector Internal Audit Standards (PSIAS). WMCA's Internal Audit service is currently provided through contract with the City of Wolverhampton Council's Internal Audit team, and operates in line with the Internal Audit Charter, as required by the PSIAS, and approved by ARAC in November 2021.

2.2 Internal Audit is required to provide an independent and objective opinion on risk management, control and governance arrangements within the organisation, and the effectiveness these have in achieving our agreed objectives. The outcome of these activities will be reported to, and monitored by ARAC throughout the year, and will also be used to inform Internal Audit's annual report on the adequacy and effectiveness of our governance, risk management and internal control processes for reporting as part of the Annual Governance Statement within the financial accounts.

2.3 Internal Audit is the organisation's third line of defence. It has developed the 23/24 risk-based audit plan through discussion with the Risk Manager and analysis of the Strategic Risk Register, a review of the activities of the Appraisal and Assurance teams (as second line of defence), the status of delivery of the organisation's high-level deliverables, and discussion with Directors to establish themes that will benefit an independent review.

2.4 On identification of audit themes, an Audit Needs Assessment has been undertaken giving consideration to the status of associated risks, the business impact if risks were to materialise, the outcome and frequency of any audit reviews previously undertaken, and the likely exposure to error or fraud, to determine an audit rating for a low, medium, or high requirement for inclusion in the audit plan. The outcome of this has resulted in a draft plan having been developed with the rating of this assessment included in the plan as the 'Audit Needs Rating', and is provided as appendix 1 for ARAC's consideration.

2.5 Where a proposed audit is aligned to a risk within the Strategic Risk Register, this has been noted with reference to the relevant risk within the plan. It should be noted however, Internal Audit are not able to review all risks contained in the register. Risks that are listed as operating at their target levels are not considered necessary for inclusion on the plan and where audit activity has been undertaken in recent years, inclusion on the plan will not be required unless specific concerns remain or have been indentified. There may also be risks on the Risk Register that fall outside of the remit of the Audit, Risk and Assurance Committee and as such will be managed through the appropriate channels. In addition to the audit plan, Assurance, as the organisations second line of defence, will complete regular healthchecks of projects and programmes and will provide periodic updates to this committee.

2.6 Due to the continuing and unexpected resourcing issues experienced by our Internal Audit providers, and the impact this has had to date on the achievement of delivering the 22/23 audit plan, a prioritisation exercise has been completed against the 22/23 Internal Audit plan resulting in the proposal for several audits to be deferred, and have been included in the 23/24 audit plan. These include Business Continuity, Monitoring and Evaluation and the Asset Acquisition and disposal framework.

2.7 Work is currently underway to identify short term resource to ensure that the outstanding audits identified in the 2022/2023 Plan can be delivered in full and in a reasonable timescale.

2.8 A review of the existing audit arrangements is also underway. The recommendations from this review will seek to inform the provision of the WMCA internal audit service moving forwards, to ensure that adequate and appropriate resources are in place to provide a full and comprehensive audit function.

2.9 It is recognised the plan should be balanced in setting out an achievable work plan, whilst also allowing flexibility to respond to changing risks and priorities that arise during the year. This will be of particular importance over the coming months whilst the organisation determines its approach and resourcing capabilities for the forthcoming year, alongside any key changes to the risk environment.

2.10 Once delivery arrangements have been confirmed, a schedule for delivery will be prepared in advance of the plan being shared with ARAC for it’s final approval in April 2023.

3. Financial Implications

There are no direct financial implications arising from this report.

4. Legal Implications

There are no direct legal implications. The audit plan referred to, and details of which are set out in this report assist the Authority in complying with its’ statutory obligations.

5. Equalities Implications

Not applicable.

6. Inclusive Growth Implications

Not applicable.

7. Geographical Area of Report’s Implications

Not applicable.

8. Other Implications

Not applicable.

9. Schedule of Background Papers

Appendix 1 – Draft Internal Audit Plan 2023/24

Draft Internal Audit Plan 2023/24

Auditable area	Purpose	Strategic Risk	Audit needs rating
Organisational			
Health & Safety	To seek assurance that a robust health and safety management system is in operation for the WMCA that aligns to ISO 45001 to effectively manage health and safety risks.	SRR – R018 Failure of the WMCA to implement and embed suitable and sufficient Health and Safety arrangements.	Medium
Contract management	A review of processes to ensure the effective management of suppliers, ensuring the service or supply of goods meets expectations, with set procedures followed in the management of poor performance or non-compliance of contractual obligations.	SRR – R008 / R024 Commerciality / Inflation & global supply chain pressures	High
Declarations – Gifts and Hospitality	A review of the application of the Declaring Hospitality and Gifts policy ensuring associated procedures are followed as set out in the Constitution.	SRR - R010 Failure to adopt and embed adequate formal governance arrangements.	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.	SRR-R012 WMCA Resilience	Medium
Decision making arrangements	A review of the decision-making arrangements in place throughout WMCA assessing compliance with legislative and constitutional requirements.	SRR - R010 Failure to adopt and embed adequate formal governance arrangements.	High
Finance and Business Hub			
Key Financial Systems	To provide assurance that the key financial processes are operating effectively, including: • Payroll • Accounts payable • Accounts receivable • General ledger • Budgetary control • Treasury Management	-	Annual requirement
National Fraud initiative	A review of WMCA's processes to ensure it meet all obligations of the 22/23 NFI exercise including its response to identified data matches.	SRR – R010 Failure to adopt and embed adequate formal governance arrangements.	Medium

Draft Internal Audit Plan 2023/24

Project Pipeline	To seek assurance that robust processes are in place to demonstrate an effective organisational Project Pipeline is in place from inception and identification of funding through to delivery, to support the management of financial and business planning.	SRR -R009 Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments	Medium
Monitoring & Evaluation	To seek assurance that robust organisational monitoring and evaluation arrangements have been established supporting oversight of project and programme deliverables.	SRR-R019 Investment Programme Delivery – Reputational Impact	High
Economy, Skills & Communities			
Adult Education Budget	A review of compliance with the Government Functional Standard: 015 Grants as set out and required to meet the conditions for delivery of the UK Shared Prosperity Fund.	-	Medium
Strategy, Innovation & Net Zero			
Trailblazer Devolution Deal (TDD)	To assess elements of the TDD programme to confirm it's compliance with the Single Assurance Framework's (SAF) initiation and development stages.	SRR -R009 Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments	Medium
Commonwealth Games Legacy Fund	To seek assurance WMCA is compliant with associated funding conditions as set out by DCMS in the management of the CWG Legacy fund.	-	High
Energy efficiency retrofit	To seek assurance WMCA's retrofit programme is meeting the standards of the government's Home Energy Performance Retrofit programme.	SRR-R001 Failure to deliver the opportunities and benefits of the Investment Programme	Medium
Housing and Regeneration			
Asset Acquisition and Disposal Framework	To review the structure of, and operational compliance with the Corporate Asset Acquisition and Disposal Framework.	-	Medium
TfWM			
Active Travel Fund	To seek assurance of compliance of the Single Assurance Framework (SAF) for the Active Travel Fund and assess the agility of SAF to accommodate and support smaller, time limited funding projects and programmes.	SRR- 009 Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments	Medium

Swift	A review to seek assurance effective procedures are in place to provide customers with a quality service in the management of Swift accounts including account opening, change requests and account closures.	-	High
Operator Charging	A review to seek assurance income obtained from Departure Charging and Information at Bus Stops and Shelters (IBSS) is effectively and proportionately managed in line with associated policies and procedures.	SRR-R007 Post pandemic sustainability of public transport network	Medium

West Midlands Combined Authority

Audit, Risk & Assurance Committee

Date	24 January 2023
Report title	WMCA Strategic Risk Update
Accountable Chief Executive	Laura Shoaf, Interim 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:

a. Note the key messages in the Strategic Risk Update

b. Consider and note revisions, or planned revisions, to the Strategic Risk Register.

1. Purpose

1.1. Taken together, the Strategic Risk Update at appendix 1, the Strategic Risk Register (SRR) at appendix 2, and the Issues Log at appendix 3, provide the ARAC with visibility of the strategic risks currently faced by the WMCA and support its function in monitoring the operation of risk management at the WMCA.

2. Background

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

2.2 Issues

- The programme of action for the *3GT quality issues* is now complete and this issue will be removed from the next iteration of the Issue Log.

- A new issue has been recognised in relation to a *Breach of financial regulations.*

2.3 **Risks**

Following its review, the SRR now contains 20 risks, of which three have the highest residual score of 25:

- *Failure to deliver the opportunities and benefits of the Investment Programme*
- *External factors*
- *Inflation & global supply chain pressures*

A further eight risks are rated at High / Red:

- *Financial resilience of WMCA to absorb fiscal shocks*
- *Information assurance & protective security*
- *Stakeholder & political relations*
- *Capacity and capability*
- *Post pandemic sustainability of public transport network*
- *Commerciality*
- *Financial sustainability of the Mayoral-led CA Model*
- *Cost of Living Crisis* (New).

2.4 **Embedding Risk Management**

In the last two months I have continued to meet teams across the CA to focus attention on the need for Directorate risk registers, offering my time and assistance to colleagues in respect of identifying risks and developing their risk registers. We have also begun publishing the SRR on the Risk Management intranet page as an aid to broadening understanding of risk management at the CA. Finally, I have produced a far simpler risk register template for use across the WMCA for all projects, programmes and directorates.

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

9. Schedule of Background Papers

Appendix 1	Strategic Risk Update
Appendix 2	WMCA Strategic Risk Register
Appendix 3	WMCA Issues Log

ARAC
Strategic Risk Update
January 2023

Peter Astrella – Risk Manager

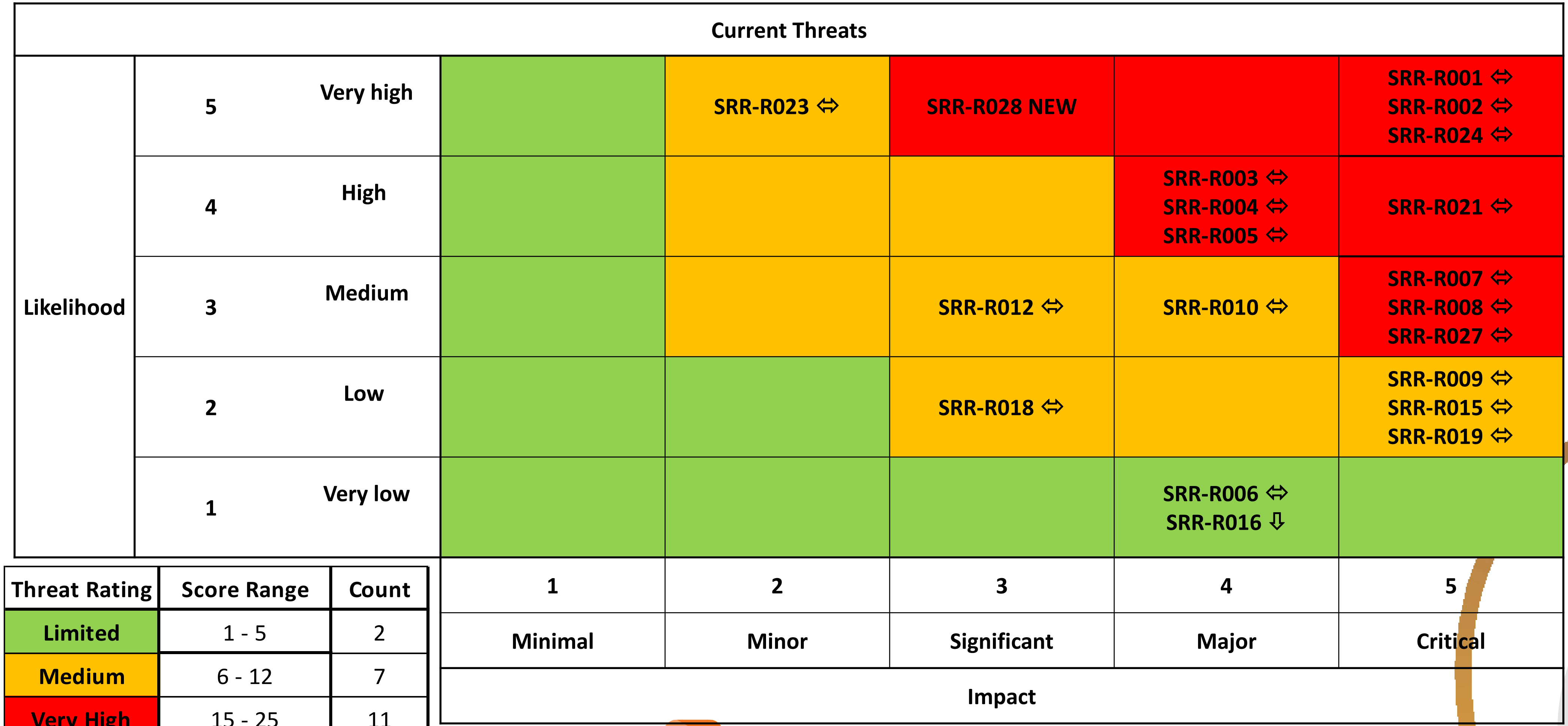
Finance & Business Hub

West Midlands
Combined Authority

Contents

WMCA Strategic Risk Heat Map

A review of medium and low risks has resulted in the identification and assessment of one new risk, revisions to several more including the reduction of one risk.

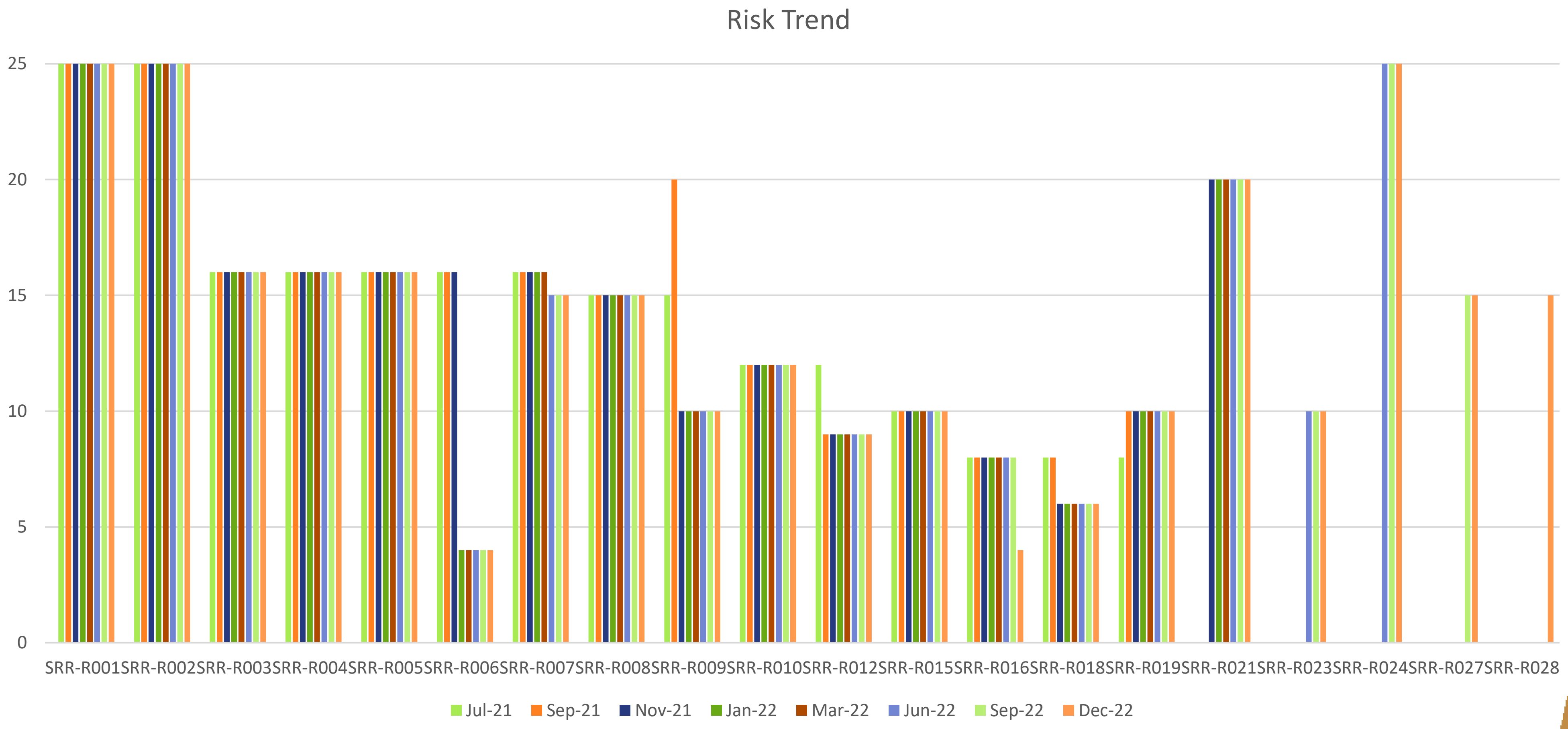


Current Threats							
Likelihood	5	Very high		SRR-R023 ⇔	SRR-R028 NEW		SRR-R001 ⇔ SRR-R002 ⇔ SRR-R024 ⇔
	4	High				SRR-R003 ⇔ SRR-R004 ⇔ SRR-R005 ⇔	SRR-R021 ⇔
	3	Medium			SRR-R012 ⇔	SRR-R010 ⇔	SRR-R007 ⇔ SRR-R008 ⇔ SRR-R027 ⇔
	2	Low			SRR-R018 ⇔		SRR-R009 ⇔ SRR-R015 ⇔ SRR-R019 ⇔
	1	Very low				SRR-R006 ⇔ SRR-R016 ⇩	
			1	2	3	4	5
			Minimal	Minor	Significant	Major	Critical
			Impact				

Threat Rating	Score Range	Count
Limited	1 - 5	2
Medium	6 - 12	7
Very High	15 - 25	11
Total		20

West Midlands
Combined Authority

WMCA Strategic Risk Trend



West Midlands
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WMCA Strategic Risk Trend

Following the latest review, there are now 11 strategic risks rated High / Red; one of which is new, and three of which have the highest residual rating:

SRR-R001	Failure to deliver the opportunities and benefits of the Investment Programme **25**
SRR-R002	External Factors **25**
SRR-R024	Inflation & global supply chain pressures **25**
SRR-R021	Financial resilience of WMCA to absorb fiscal shocks **20**
SRR-R003	Information Assurance & Security **16**
SRR-R004	Stakeholder & Political Relations **16**
SRR-R005	Capacity and Capability **16**
SRR-R007	Post pandemic sustainability of public transport network **15**
SRR-R008	Commerciality **15**
SRR-R027	Financial Sustainability of the MCA Model **15**
SRR-R028	Cost of Living Crisis 15 **(New)**

West Midlands
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Key Messages for ARAC (1)

The SLT agreed that the *Cost of Living Crisis; Inflation and Global Supply Chain pressures* risk ought to be split into two individual risks, updated as follows:

Cost of Living Crisis – The UK is experiencing the highest rate of inflation in forty years, primarily driven by increases in the cost of fuel, incl: electricity & gas, the cost of food, and the cost of transport. The SLT agreed that this should be a new risk, linked to *SRR-R024 - Inflation & global supply chain pressures,* but focussed on the effects and what we can do within our responsibilities, for our staff and the citizens (people and businesses) of the West Midlands. We are helping signpost citizens of the West Midlands to the assistance the relevant authorities are providing, while looking at our own responsibilities, both for citizens and our own staff.

Inflation & global supply chain pressures – There is increasing evidence of this risk starting to affect WMCA. A paper on TfWM capital pressures went to the WMCA Board on 16 December, while the separate, but related, risk of *Post pandemic sustainability of public transport network*, reflects the possible impact on the sustainability of the bus network, where the expiry of Government funding in 2023 will combine with the effects of fuel cost inflation and driver shortages.

Key Messages for ARAC (2)

Failure to deliver the opportunities and benefits of the Investment Programme
SLT agreed that the focus of control activity was on Government engagement, specifically through the Trailblazer Devolution Deal discussions.

Continued operations - West Midlands 5G
Project finances are subject to robust business case criteria and grant agreement within WMCA. A governance structure supports this, with an arms length, wholly owned subsidiary company of WMCA, overseen by an independent Chair and with WMCA representation. External funding for projects is in arrears and all targets have been met to date. As a result, the SLT agreed that the risk of any failure to delivery is falling, but that they would retain the risk on the SRR for the time being in order to ensure it remained under control.

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Risk ID	Risk Owners	Title	Cause	Effect	Controls measures in place	Likelihood	Impact	Score	Target	Trend	Further actions required to mitigate risk
SRR-R001	FAB Hub	**Failure to deliver the opportunities and benefits of the Investment Programme**	Decisions taken about the supplementary or alternative income streams; Business Rates Growth, Business Rates Supplement, and Precept, raise the risk that we will be unable to deliver the opportunities and benefits of the Investment Programme. In addition, interest rate rises are eroding the purchasing power of the grants / funding we have secured to date.	This could have a significant impact on the long term health of the CA and our ability to deliver for the West Midlands through: • Opportunities for growth being compromised • Damage to our political relationships with central Government, which could result in Government claw back of funds • Reputational damage with our constituent members • Stakeholder relationships compromised	• WMCA Board have capped the investment within an affordable limit which also includes a hedge against future interest rate rises. • Met Leaders have consistently stated that IP Projects are of the highest regional priority, and they support the principle that where new funds are provided they should be first applied to meet the shortfall of funding of IP projects where the funding allows. • Senior Finance team members undertake regular review of the forces on the IP model. • Work closely 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, CRSTS, etc). • WMCA continues 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. Get Britain Building Fund. Opportunities arising from the recent Spending Review announcements are continuing to be assessed.	5	5	25	20	↔	We are actively engaging with Government through our Trailblazer Devoution Deal discussions to look at how we: (1) Unblock Business Rate growth, and (2) Build support to enable a Supplementary Business rate Finally, we may want to explore future (post current Mayoral Term) precept options
SRR-R002	SINZ	**External Factors**	External uncertainties such as changes in Government policy, challenges following the pandemic or Brexit, may not be adequately factored into WMCA plans.	Fail to achieve our delivery ambitions, resulting in reputational damage to the CA. Structural economic change may change the nature, cause and solutions to regional social and economic challenges, meaning that our solutions and programmes need to 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. Feb 21 the WMCA Board endorsed five strategic challenges to shape the region's response and recovery planning. Fortnightly monitoring process (in collaboration with WM-REDI 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.	5	5	25	TBC	↔	Maintain measures already in place. Where vulnerabilities are exposed, undertake specific work with partners to explore solutions (e.g. supported Cabined Office project about impact of introduction of border import controls / the Chambers/LEPs led work about issues to trade disruption). Continued development and delivery of appropriate responses as the situation develops as advised by Government, including the development of a strategy to support the recovery of the economy within the region, supporting HM Treasury's wider "Plan for Growth"
SRR-R003	SLT	**Information Assurance & Security**	Data protection requirements and/or proper protective security of all WMCA assets, information systems, premises and people, are not reasonably and proportionately maintained could lead to: Protective security of all WMCA assets, information systems, premises and people, are not reasonably and proportionately maintained leading to: • Organised and Opportunistic Crime • Authorised user failures • 3rd Party Services failures	• Loss of information / access to information by unauthorised persons. • Loss of access to information and information systems, resulting in the organisation's inability to function effectively.	• The SLT has approved an Information Assurance (IA) Framework supported by a suite of Protective Security and Data Protection policies. • The CA has adopted and monitors adherence to all standards, warnings, advice, guidance and best practice as indicated by the relevant National Technical Authorities and other external experts. • The IA Framework requires risk owners to consider and manage Data Protection risk at strategic and operational levels. • All staff required to complete Information Security training, including GDPR, with regular staff awareness and monitoring in place.	4	4	16	09-Jan	↔	The SLT approved a WMCA Digital & Data (D&D) Strategy, of which the first aim is to: "Provide information assurance and risk management aligned to the confidentiality, integrity and availability of information systems and assets as set out in the HMG Security Policy Framework (SPF) and the Government Functional Standard (GovS)" We need now to: • Deliver the D&D Strategy • Work with SLT and CMT to maintain organisational buy-in and commitment • Work with the Finance Team to embed the Strategy's requirements within the MtFP process to maintain the necessary financial support.
SRR-R004	SINZ	**Stakeholder & Political Relations**	Changing national politics have the potential to significantly impact the devolution agenda, funding and powers of WMCA	Positive stakeholder and political relations are needed to deliver the ambitions of the organisation and as the WMCA continues to expand and absorb new remits and accountabilities these relations may become more pressured. The Government's "levelling up" proposals may give rise to new powers and budgets for the CA and, with continued uncertainty on when and how these are delivered, increased pressures on financial, operational, governance and scrutiny functions amy result in further challenges in maintaining the relationships across the Region. Failure to manage these political relations and expectations could result in gaps in delivery and increased budgetary pressures.	Ongoing close working and regular communication with LEPs, constituent and non-constituent members. Collaborative working to be maintained and extended where opportunities allow. Establishment of a Devolution Strategy Group to ensure stakeholders are kept informed & involved with any Devolution discussions. The expectations of all members is to be clearly understood and shared with ongoing engagement with all partners and businesses at all stages of the Portfolio delivery. WMCA are developing more regular stakeholder and political engagement to discuss both inflight and emerging opportunities. Detailed stakeholder mapping and engagement activities undertaken with protocols 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.	4	4	16	TBC	↔	New opportunities being identified by Leadership Team to maintain and improve relations. Induction process for newly elected political members of WMCA in place. External political uncertainties are likely to contribute to residual risks despite mitigating actions. A review of engagement and involvement in decision-making and policy development
SRR-R005	FAB Hub	**Capacity and Capability**	Possibility of challenges in recruitment, retention and skill gaps, including those arising out of the post-pandemic environment we are operating in.	There is the risk that the capacity and skills amongst managers and officers may not be sufficient or fully aligned to enable delivery of our objectives and respond to changing priorities, or to meet the continuing focus for delivery of new and challenging initiatives within WMCA While increased demands and pressures on staff could impact wellbeing and attendance levels. Post-Pandemic, there is a new threat as employees consider their work / life aspirations. Hybrid working has opened opportunities for people that might not have existed before. This also reflects an opportunity for the CA as we may no longer be tied to recruiting from a relatively small geographical pool, as hybrid opens up opportunities for recruits not necessarily located in the West Midlands.	**General** - Development and delivery of the organisation wide Transformation Programme Reset: Rebuild has been established to support the review of the CA's systems, processes, structure, and culture. We have introduced a HR Service Centre. **Recruitment** - SLT have considered an approach to capacity planning and recruitment in a volatile market, and we will be looking at the tools and routes to market we want to use. **Retention** - An approach to talent and succession is being progressed including a skills audit to support a more planned approach. We will continue to ensure there are plenty of learning and development opportunities, including Learning Week. **Hybrid** - Regular communications in place with all staff to maintain engagement across all levels of the organisation. An all-staff survey on WMCA's management of its Covid response demonstrated most staff welcomed working from home and productivity has increased. The results have been reviewed in detail to inform the approach to future hybrid working arrangements. **Well-being** - HR and Wellbeing team are focussing on the mental health of all staff. A suite of wellbeing initiatives has been implemented to support the continued health of all staff, including the introduction of mental health first aiders and focus on promoting the benefits of the employee assistance programme	4	4	16	12	↔	**General** - Development and delivery of a cohesive People Strategy is fundamental to our response to this risk. We will be relaunching our vision and values, raising their visibility and improving their understanding with all staff, supported by #BetterConnected where we will be looking to improve staff interface and engagement. **Well-being –** We will continue to look at new well-being initiatives, engaging staff through well-being forums and promoting well-being webinars.
SRR-R006	SINZ	**Overall Delivery of Devolution Objectives**	Political uncertainty and changing political priorities of central government.	The case for Mayoral Combined Authorities (MCA) and devolution is undermined. This could mean a re-centralisation of MCA functions or new HMG programmes that cut across our delivery plans or undermine our role. This could limit our ability to deliver our devolution deals, causing broad reputational damage and the possibility of detrimental impact to the local economy.	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.	1	4	4	4	↔	Low perceived residual external risk given current government positioning on the devolution agenda.

Risk ID	Risk Owners	Title	Cause	Effect	Controls measures in place	Likelihood	Impact	Score	Target	Trend	Further actions required to mitigate risk
SRR-R007	TfWM	**Post pandemic sustainability of public transport network**	The pandemic changed customer behaviour and working habits and we continue to see reduced patronage levels across public transport networks, albeit this trend is gradually reversing and increases in bus customer numbers are going up. Added to this, Government funding is due to expire during in 2023 across England. The industry is also seeing unprecedented increases in the cost of fuel, cost inflation, and wages which is also being passed on to TfWM for contracted services placing pressure on what we are able to do to mitigate the risk. A major shortage of drivers is exasperating the issues as performance and the customer offer is far from operating at acceptable levels.	**Bus -** The pressures of reduced patronage, reduced revenues, commercial ownership of decision making on bus services - and uncertainty of financial support – especially when combined with the risk of inflation, fuel cost increases and supply chain concerns could lead to reductions in the bus network in the West Midlands with potential commercial provision to as low as 65 to 80% of pre-covid levels. This could lead to pressure on TfWM to step in and financially support services which would, in turn, lead to increased budgetary pressures for TfWM and the wider WMCA of up to between £30m and £50m per annum based on the existing network. **Metro & Rail -** Longer term economic impact on both the Metro and Rail operations, there is a risk that both industries don't recover to pre pandemic levels due to a change in working habits/customer behaviour and uncertainty over longer term government funding support; DfT provided financial support for Metro to maintain services but this funding ends in October. **Tram** - Difficult for MML to hit operating budgets, which has a knock-on impact on operations and elements of Metro expansion where borrowing against future revenue is involved. **Rail** - Increased pressure to reduce the Rail industry cost base by reducing services, changes to working practices and these could be harmful to the strategic objectives of TfWM & WMCA.	• 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. • Proactive engagement with Government and DfT around devolution of funding to enable us to better work through and manage any required changes on the network. • Working with bus operators to increase service performance, to encourage patronage growth as service performance has failed to meet expected standards and targets. • Working with industry, Government and partners through the West Midlands Bus Alliance to attract new and additional bus drivers to the industry in light of recent driver shortages and the impacts to services. • Work with operators to provide customers with improved measures to advise passengers of which services are actually running through a series of communication channels to provide improved customer awareness of bus service cancellations. • VFM criteria has been reviewed to allow a greater number of bus contracts to be supported by the subsidised bus budget. This decision was taken by TDC at its meeting in Oct-22. • Engaging with Central government regarding the proposed recovery partnerships and seeking to influence the level of available funding - Light rail settlement combined with bus settlement, WMCA region allocation to be confirmed in due course. • Review of funding models and access standards to support uplift and commercial operators making significant changes. • Early identification of financial risk to inform the budget setting process and identifying options for reducing expenditure - Operational efficiency ongoing, all elements investigated i.e power, staffing. MML completing full re-visit of forecast for the financial year. • Work with DfT, Rail industry partners to help inform decisions about future service offering within the West Midlands.	3	5	15	9	↔	**Bus** • Work with operators to identify opportunities to reduce overprovision on corridors where there is commercial competition, to be delivered on the 1st January 2023. • Agreeing with operators timeline for undertaking network review process including setting review principles; engagement and consultation, marketing and promotion etc. Liaise with DfT regarding funding and expectations as to when the Network Review needs to be complete. • Implement comingling of passengers / explore options for expanding West Mids on Demand service to help meet gaps in the fixed route bus network. • Leaders have agreed to commission a review of supported policies to take place over 22/23 • Negotiate with operators to get the best package from the BSIP funding, including securing best coverage of the network. • Undertake and implement network review to register services, this will be delivered on the 1st January 2023. • Communication of amended product range to help customers return to buying longer duration Metro tickets upon the Tram network (Placed on hold during service disruption, activities due to re-commence over Summer 2022). • Supporting national and local marketing campaigns to increase demand and targeting new markets. • Through the bus alliance board and working nationally with DfT and CPT we are collectively exploring opportunities to address the drive shortage issues.
SRR-R008	FAB Hub	**Commerciality**	Having chosen to use commercial company delivery models in some areas, challenging economic conditions and / or material loss of revenue from investments may result in these commercial models being unable to deliver expected benefits and commercial revenue targets. While the issues associated with Covid 19 have largely passed, a new issue of high inflation and the cost of living crisis is likely to have a significant effect on the economy.	The Combined Authority may be exposed to greater financial risk, as well as reputational and delivery impacts. Examples being: Underperformance of the Commercial Regeneration Fund and a drop in commercial revenue and future Fairbox revenues, which could effect the WBH extension	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' Companies generally set up on a limited basis and therefore without a legal obligation to input more capital, however a reputational obligation may exist. Sources of capital input are generally sums that would otherwise have been input as grant i.e. they are from income streams to the WMCA that will not require repayment if losses occur. 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 financing models, reducing the risk of error. The statutory officers of WMCA are involved in the review of all commercial decisions and contracts/legal agreements to ensure that Covid risks/viability and costs have been assessed and where possible, controlled at the present time.	3	5	15	10	↔	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 operations impacted by the pandemic.
SRR-R009	FAB Hub	**Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments**	• 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. • The introduction of enhanced control requirements increasing resource requirements. • 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	• Potential for investment decisions being made without adequate appraisal having taken place beforehand. • Leading to poor investment decisions and failure to realise anticipated benefits or value for money, thereby having an adverse financial and reputational impact. • Noncompliance with Government requirements. • Impact the ability of the WMCA to secure future funding.	• Single Assurance Framework (SAF) approved by WMCA Board in July 2020. • SLT endorsed a phased implementation for transitioning projects to the new SAF in September 2020. • Started with the Investment Programme and expanded to include a number of portfolios. Target date to transition existing portfolios was Spring 2022. • SAF Implementation group meets monthly and reports progress/ issues to SLT. • A revised and enhanced tool kit was developed to support SAF implementation. Assurance and Appraisal processes implemented in line with SAF requirements. • SAF guidance is available on the Intranet. • 7 additional posts have been approved and recruited to. • Roll out of SAF requirements has been delivered to all Directorates and support teams. • Almost all Directorates have now transitioned to the SAF - next update is October 2022. • Directors are committed to submitting project pipeline information for each Portfolio and have worked to achieve transition. • The Investment Director has established a commercial approach to funding opportunities. • In addition an integrated Risk, Assurance and Internal Audit network has been established to share information and intelligence. • SAF annual refresh will be initiated in April with the aim of WMCA Board approvals by September 2022. • Evidence from engagement with Government suggests they are satisfied with progress we are making, with positive feedback from DfT when the City Regional Sustainable Transport Settlement (CRSTS) bid was being developed. DfT were confident in WMCA's assurance arrangements and only retained 2 schemes for their review (other CA's had a greater number retained by DfT).	2	5	10	10	↔	Once the remaining WMCA portfolio is SAF compliant we should see a reduction in the Risk Likelihood and therefore the overall Risk Score. To maintain risk mitigation, we will need to continue to deliver the existing controls including regular Assurance and Appraisal reporting to SLT and ARAC. In addition: 1. Look at further elements of the SAF that need to be implemented and embedded. 2. Following the review of internal governance arrangements, embedding of future governance arrangements is ongoing as part of a wider review.

Risk ID	Risk Owners	Title	Cause	Effect	Controls measures in place	Likelihood	Impact	Score	Target	Trend	Further actions required to mitigate risk
SRR-R010	Governance	**Governance Failures**	Failure to adopt and embed adequate formal governance arrangements.	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. Inadequate governance could result in: • Ineffective decision-making arrangements • Unsuccessful delivery of WMCA objectives, • Legal challenge, • Negative Financial impact • WMCA being unable to meet its obligations and future aspirations.	• Comprehensive governance arrangements are in place and contained in the WMCA constitution, approved by the Board. • 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 all assurance activities, including Internal Audit. • 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. • A WMCA single assurance framework is in place. Governance requirements for Adult Education Budget, Housing and 5G have been established to ensure the adoption of streamlined approaches where required. • 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 governance review was undertaken and reported in November 2021 and continues to be implemented.	3	4	12	5	↔	• Implement recommendations of the Governance Review from November 2021. • Continue to monitor national guidance from Govt and the LGA and work with the Met Authorities to maintain a consistent approach where possible. • We may want to consider a thorough review and revamp of the WMCA constitution in the longer term, this could include all officer delegations and protocols.
SRR-R012	HPR	**WMCA Resilience**	Unexpected or irregular events and circumstances affecting WMCA services, buildings and facilities, disrupting operations and activities.	WMCA may be unable to respond in an effective and timely manner to events that have the potential to disrupt operations and activities, causing service outages, incl. those relating to the disruption of the transport network. All of which could result in: financial loss, failure to realise expected benefits or funding, reputational damage, service outages, and legal or regulatory breach	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 communications 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 comms 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 a ongoing basis.	3	3	9	6	↔	Raising business continuity awareness and embedding the programme within the business, a 'task and finish' group has been established which is being lead 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 CMT as 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 TfWM plans ICT to review disaster recovery plan to ensure consistency between ICT and operational requirements are met and to update following Covid-19 and in light of the new remote working policies and procedures. 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 this to look at the IT DR 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)
SRR-R015	SINZ	**Failure to deliver the collective regional commitment to reducing the carbon budget to net-zero CO2 by 2041**	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.	WMCA, its members and partners, do not meet the region's carbon budget reduction net-zero CO2 by 2041 aims and attendant interim targets. There are profound implications for the region as part of a headline global risk of severe warming which evidence suggests will be hugely significant and costly in both human and economic terms.	• A climate change strategy has been developed and priorities identified through a paper presented to the CA Board in June 2020; WM2041: a programme for implementing an environmental recovery. Actions from this paper are being taken forward and the CA Board agreed a Five-Year Plan. • As part of the approval of the Five-Year Plan, budget was provided to create 5 new roles for the Environment Team and five new roles for Energy Capital; significantly enhancing our ability to deliver against the programme's targets. • The Environment Team are working with other parts of the CA (TfWM, Housing and Land and Productivity and Skills) to ensure that net zero is embedded across the CA's work. TfWM continues work to affect a modal shift to clean and efficient public transport and active travel addresses medium term carbon reduction goals as well as shorter term concerns over clean air and congestion. The new Movement for Growth strategy will have carbon as a key consideration in future transport measures. • Supporting progress with sustainability partners in aligning the five-year budget cycles required under the UK Climate Change Act. • Annual monitoring of progress by the WMCA Environment Team is in place, as is annual reporting to the Carbon Disclosure Project.	2	5	10	10	↔	• Implement the first 5-year action plan; there is concern that it is currently only fully resourced for 2-years, and we are now over halfway through. In addition, several milestones for HLDs relating to our carbon neutral objective have seen activities delayed this year. • Successful delivery of our objective will be very challenging without additional resourcing of both the team and the work, • The scale of the renewed commitment of WMCA alongside that of its members and partners requires a step change in our behaviour, this includes a particular need for focus on climate change across the whole of the CA's portfolio of activity. • We continue to press the Government for additional funding for the work on energy and environment in connection with any review of public spending.
SRR-R016	FAB Hub	**Continued operations - West Midlands 5G**	Completion of the national TestBeds and Trials programme (as funded by DCMS) has removed the main funding stream from WM5G; WM5G successfully concluded all DCMS required outputs and its largest funded project is delivered and closed. WM5G is now tasked with replacing future income from new work it must pitch for and its continued existence depends on what it might win before March 2023 and any additional funding that the Region may offer it whilst it continues to build income to replace the DCMS funding. There is a possibility that continued existence can not be guaranteed beyond March 2023 if alternative funding is not secured.	Delivery failures and the need to wind down WM5G if alternate funding is not secured impacting on Staff, Skill levels within the CA. Operational impacts beyond the 5G Team caused by the skill gaps created if there are staff losses. There is a significant potential for financial loss: 1. If no further funding is received to continue the work of WM5G, then the start up costs have not been spread over many years. 2. Any future digital initiative that could have utilised the WM5G 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 and grant agreement within WMCA. The governance structure further reinforces this - via an arms length, wholly owned subsidiary company of WMCA, overseen by an independent Chair and with WMCA representation, held ultimately to account by WMCA through monthly Shareholder meetings. External funding for projects is in arrears and all targets met to date, the risk of any failure to deliver is falling. WMCA funding is largely in arrears and is strictly controlled by Finance and supported by the Shareholder meetings. WM5G have an in-house Finance Director and have demonstrated prudent financial control to date.	1	4	4	6	▼	A business plan will form the business case and grant agreement for 2023/24 and will follow the Single Assurance Framework.

Risk ID	Risk Owners	Title	Cause	Effect	Controls measures in place	Likelihood	Impact	Score	Target	Trend	Further actions required to mitigate risk
SRR-R018	TfWM	**Health & Safety**	Failure of the WMCA to implement and embed suitable and sufficient Health and Safety arrangements across its activities via a defined Safety Management System (SMS) which as a minimum ensures compliance with all relevant legislative requirements.	Insufficient or absent arrangements to ensure the safety, health and wellbeing of any persons who may be affected by the organisation's assets and undertakings, resulting in significant risk to persons and/or infrastructure, including safe delivery or Metro Operations and Programme Delivery construction activity. Breach of legislative requirements, with potential for enforcement action by regulatory bodies, legal action (both criminal and civil) and reputational damage.	• SMS certified to ISO 45001 standard with ongoing compliance externally assessed annually. • Assessment of internal and external issues relevant to the SMS undertaken to allow the organisation to understand the H&S challenges and risks inherent to its activities, as well as any interested internal and external parties. • WMCA Health and Safety Policy signed by Chief Executive containing statement of intent, roles and responsibilities and arrangements for implementation. • Comprehensive H&S Legislation Register maintained by H&S Dept. • Three-year WMCA Health & Safety Strategy (and associated Annual Delivery Plans) developed. • Strategic and Operational Health & Safety Committees established. • Audit and Inspections of all operational assets undertaken against set schedule to ensure H&S compliance is maintained. • Monthly Health and Safety Report produced to provide regular update of performance and activity. • Annual Health and Safety Performance Report produced to provide a summary of principal activities relating to the promotion and management of health and safety and outcomes during the past year. • H&S obligations are considered in the development of all projects and programmes. • Provision of relevant instruction, training, and supervision. • Robust procedures in place for the reporting and investigation of accidents, incidents, and near misses.	2	3	6	4	↔	• Development of policies, procedures, and guidance to ensure suitable and sufficient H&S implemented for all areas of the WMCA portfolio. • Implementation of SMS Compliance Audit Tool to assess the application, understanding and maturity of health and safety policies and procedures within each WMCA directorate. • Enhanced Visible Felt Leadership Programme to engage and motivate employees, whilst demonstrating commitment and support to the overall Health and Safety Policy. • Continued development of the Health and Safety Training Programme. • Immediate engagement with emergency services and/or regulatory body (HSE, ORR) in response to serious H&S incidents.
SRR-R019	FAB Hub	**Investment Programme Delivery**	Due to uncertainties created by the use of Delivery Partners/ Delivery Bodies to deliver Projects/Programmes wholly or partially funded by WMCA Investment Programme, there is a risk that they may fail to deliver the full agreed scope of the Project/Programme, due to circumstances beyond their control and this may not be identified early on and appropriately mitigated if monitoring mechanisms are not robust.	Resulting in delays to the delivery of programmes of work, failure to deliver the elements of WMCAs devolution commitments. Potentially leading to Reputational damage to the WMCA as well as damage to Political relations /Programme Delivery.	Monitoring Arrangements in place with Delivery Partners to ensure timely monitoring and reporting. WMCA assurance framework is in place and resources being bolstered. Progress of financial contributions monitored to enable coverage of all WMCA successes or early intervention of possible challenges. Recruitment of a dedicated Investment Programme Monitoring and Evaluation team largely completed with 2 of 3 positons filled and a new M&E framework being rolled-out. Improved standards of project initiation, development, delivery and monitoring/oversight through the Single Assurance Framework (SAF) have been rolled out. Two new Monitoring & Evaluation Officers are in place to further enhance / support the ability of the CA to monitor the dleivery by Delivery Partners / Delivery Bodies. Funding agreements now in place with most Delivery Partners.	2	5	10	6	↔	Deliver a new Monitoring & Evalation framework.
SRR-R021	FAB Hub	**Financial resilience of WMCA to absorb fiscal shocks**	Reduced levels of reserves / resources which are available to deal with fiscal shocks. The most evident causes of such fiscal shocks currently are: • The ongoing effect of the pandemic on public transport services (see SRR R007), and • The effect of inflation and global supply chain issues (see SRR R024)	The revenue budget in recent years has been supported by reserves and other one off resources. This approach limits the degree to which the WMCA can direct funding quickly towards specific, or changing, priorities and reduces the extent to which WMCA has the financial capacity to effectively deal with fiscal shocks. Potential to force the reprioritisation of activity, including the use of earmarked reserves to support the organisation, which will affect the delivery of regional priorities.	During the pandemic the WMCA lobbied Government for additional funding for key priorities, but these opportunities to fund excess cost are now being withdrawn by Government. Some financial support is available for 2022/23, which will reduce the risk for the current FY, but this is not a viable long-term solution.	4	5	20	10	↔	• We are seeking a funding stream through the Levelling-Up agenda. • The WMCA has special status to consider future funding of Authorities and we will use this opportunity to pursue our case for CAs to receive their own funding stream. • We will also look to engage with Government over the possibility of CAs being part funded through Business Rates. • Finally, we could consider use of the precept.
SRR-R023	TfWM	**Metro Tram Availability**	The 2GT tram fleet has multiple cracks located on the body car and also on the Bogie Box which has resulted in previous withdrawal of service whilst repairs are carried out. There is an ongoing programme of repairs to trams on the body cars and bogie boxes. There is a residual risk that propogation of further cracks may again result in the tram being withdrawn for service.	Risk that 2GT/3GT trams are unavailable to meet service schedule, including suspension of all tram services to Edgbaston Village. This could result in a loss of revenue and impact other Metro extension projects. This is more prevelant whilst trams are routinely maintained (including P3 Overhauls) and are not available for short periods whilst being carried out.	Immediate risk of suspension of service is reduced, with 8 new 3GT trams in service, 2 more in preparation, and a number of trams having undergone bogie box repairs and full panel replacement. The repair programme includes monitoring of cracks for any further propogation in other locations, replacement of full body panels and an independantly assured repair to Bogie boxes. To date the repair programme has taken place at the Metro Depot which is now subject to an expansion progamme limiting space for both repairs and general maintainace for those in operation. To ensure momentum can be maintained, TfWM/MML and CAF have been working to secure an offsite location for the ongoing repairs. This is now secured and arrangements are in place to transport some trams to undergo the repair. In addition to this and to ensure that there is resilience within the fleet, 8 3GT trams have now entered into service alongside those which have had the Bogie Box Repairs and panels replaced. This has provided to date sufficient trams to enable the service and resielince as some trams are removed from service for routine inspections, and ongoing monitoring of cracks. TfWM are also working with CAF to ensure that the repairs being made are independantly assured and also gauranteed to last for the full length of the trams expected life.	5	2	10	4	↔	1. Consider negotiate / fund full replacement of whole sections/components affected in 2GT fleet This is ongoing with full side panel replacement by CAF. 2. Ensure on-going monitoring of fleet and timely completion of repairs by CAF, with provision of repair documentation for approval. 3. Consider unlocking any cost constraints on timely temporary stabling provision

Risk ID	Risk Owners	Title	Cause	Effect	Controls measures in place	Likelihood	Impact	Score	Target	Trend	Further actions required to mitigate risk
SRR-R024	FAB Hub	**Inflation & global supply chain pressures**	Macro-economic events (such as the war in Ukraine, Brexit, and lasting impacts of the 2019 pandemic) are placing pressure on the price and availability of resources. As such, there is a risk that a continuation (or escalation) of these issues severely hampers WMCA's ability to deliver to the speed and scale required.	There are four elements to the risk based on cost and availability of resources: 1. Material price increases. 2. Energy price increases. 3. Availability and price of materials. 4. Availability and price of Labour. These matters impact WMCA in the following ways. **CRSTS Programme Delivery:** If projects cost more to deliver, WMCA may be required to severely curtail delivery programmes (doing less for more). If this is perceived as 'under-performance' by DfT or WMCA do not meet DfTs delivery expectations, the value of funding from DfT could be reduced either during or following the CRSTS 5 year period. **Operational Delivery:** Certain industries will be more exposed than others. The Bus industry for example is severely exposed to increasing fuel prices and the availability of suitably qualified labour. This could result in a constriction of commercially funded services and a reduction in the scope of what the public sector is able to financially support. **Capital Delivery Transport:** For existing projects in the delivery stage, there is a risk that tightening profit margins in the construction sector mean contractor behaviours change, with the aim of forcing more cost onto WMCA - the Rail Programme is a good example of where these risks are beginning to crystalise and a paper on this went to the WMCA Board on 16 December. Where there is no contractual protection from rising prices WMCA will need to identify additional funding to compete the schemes (or consider termination / de-scope) - the Metro network (BEE) is an example of where these issues are beginning to crystalise. Additionally, availability of labour for construction works could result in extended schedules which again, import additional cost. For projects in development (not yet in construction), the external environment makes it more difficult to accurately cost the projects and set budgets. In some cases this could effect the viability of the project. In others, where the impact is under-estimated, this could introduce further cost pressures into the programme. **Capital Delivery Housing:** Given that Housing Grants typically address commercial viability gaps, where costs increase, the gap will increase and hence, the value of the subsidy WMCA are required / requested to meet. This will result in either fewer projects meeting the Value for Money benchmarks and / or the funds available funding fewer projects.	**CRSTS Programme Delivery:** WMCA are in continual dialogue with DfT over the CRSTS programme delivery arrangements and change control processes which may need to apply if the programme is delivered in a different way to the original expectations. The issues experienced are not exclusive to WMCA and DfT (who are being pragmatic and helpful, to date) are liaising with other MCAs who are in receipt of CRSTS. With respect to CRSTS projects (and Investment Programme projects) which are delivered by Local Authority partners, the funding agreements will be capped (limiting immediate exposure to WMCA). **Operational Delivery:** With respect to MML energy pressures, MML will hedge where possible, but the price rises will continue to impact, and the position is being monitored closely. Where contracts provide for RPI / CPI related increases, WMCA are contractually bound but a detailed (bottom / up) budget for 2023/24 has sought to predict the impact over the financial year and has made reasonable allowances and the Finance Director is happy that reasonable assumptions around revenue risks have been made within the budget. The impact on the bus industry (network) is being closely monitored an there is an ongoing dialogue with Bus Operators. WMCA continue also to be in ongoing conversations with Government about the degree to which ongoing support is required. **Capital Delivery Transport:** Project Teams (in Rail for instance) have bolstered Commercial expertise within teams to ensure any excess additional costs are robustly defended and declined. The review of the TfWM structures will take into account the need to ensure adequate expertise is available and steps are underway to strengthen the control, monitoring and reporting processes. Where additional costs (and descoping or termination) are unavoidable WMCA will need to meet these costs. WMCA have undertaken an exercise to provide early warnings to WMCA Board. The report included a strategy for how additional costs may be met using CRSTS or Levy. Costs are being monitored and matters managed on a case by case basis. **Capital Delivery Housing:** Principal contractors to plan and ensure materials ordered in sufficient time. Suppliers and subcontractors to manage the impact of material shortages and ensure delivery dates are maintained as scheduled.Continue to assess / monitor exposure of Inflation & Market pressures on schemes / contractors / suppliers. For the Investment Programme, the Single Assurance Framework (SAF) requires all projects and programmes to include a contingency sum. Once the contingency is exhausted, the Accountable Body is expected to meet any cost overrun. The final option is for the Accountable Body to request a change to the project through the SAF.	5	5	25	6	↔	**CRSTS Programme Delivery & Capital Transport Delivery:** Once the DfT change control requirements are known, the programme will be re-prioritised to cater for any unavoidable overspends in line with the report to Board. If this is not possible, there may be a requirement to increase future year Levy payments and Local Authorities have been advised accordingly. The implementation of the revised TfWM structure is intended to address any shortfalls in capacity and capability to manage the programme in a robust way. **Operational Delivery:** Ongoing monitoring of RPI / CPI and the subsequent impacts with the outcomes being reported through the Financial Monitoring Report for the current year, and the Medium-Term Financial Plan for future years. **Capital Delivery Housing:** Developers must prepare for the predicted ongoing and increasing inflation with contingency plans and agile project management, while imporving our own contract & commercial management. We need to look at delivery profiles and ensure, along with contractors, that there is effective resource planning.
SRR-R027	FAB Hub	**Financial Sustainability of the Mayoral-led CA Model**	There are multiple risks around the various funding streams for Combined Authorities including. but not limited to: the lack of multi-year funding models; Government failure to act on business rate reform; reduction in transport funding per capita; and reduction in devolution deal per capiita.	Sigificant pressures on Combined Authority budgets resulting in breakdown in their ability to deliver added value.	1 The Trailblazer Devolution Deal fiscal workstreams - we are discussing 15 fiscal opportunities with Government for longer term fiscal sustainability. The Autumn Statement 2022 provided some greater fiscal assurance given the restated commitment to the trailblazer devolution deals. 2 Regular review and reporting of the Mid Term Financial Plan to consider funding, local income generation and or service cuts.	3	5	15	5	↔	Agree TDD fiscal opportunities with Government to provide longer term fiscal security However, these agreements will not come through until 2024, which means the CA has a hole in its budget requiring filling in 2023-24. We will be putting forward a draft budget in January that wil include further use of our reserves to resolve the issues in 2023/24. We must recognise that such activity will further impact **SRR-R021 Financial resilience of WMCA to absorb fiscal shocks**. The further activity available to reduce *SRR-R021 Financial resilience of WMCA to absorb fiscal shocks* can also be applied to this risk, namely: funding through the Levelling-Up agenda; use our status with Government to consider future funding of Authorities and the opportunity for CAs to receive their own funding stream; engage Government over the possibility of CAs being part funded through Business Rates; and finally, we could consider use of the precept. Although the Autumn Statement was positive about the potentialof a TDD being agreed, there could still be problems for theCA were the TDD not to cover everything we expect or were it to come with caveats.
SRR-R028	Our Staff - FAB Hub Citizens - SINZ	**Cost of living crisis**	The UK is experiencing the highest rate of inflation in forty years, with the Consumer Price Index up by 11.1% in the 12 months to October 2022 . This has primarily been driven by increases in the cost of electricity, gas, and other fuels, cost of food, and cost of transport, primarily driven by increases in fuel costs, and there is therefore a direct link with *SRR-R024 - Inflation & global supply chain pressures*	The cost of living crisis is an existential threat to the WMCA through its impact on the businesses and people of the West Midlands, including many of our own staff, and through an associated threat to both our funding and revenue streams.	**Our Staff**: A range of information is now available to staff on the intranet through the financial-wellbeing-guidance, including links to external support and our CareFirst programme. **Citizens:** The direct response to the cost of living crisis is being led and coordinated by our constituent local authorities. The WMCA is signposting residents and businesses to the help and support being coordinated by local partners including local authorities, community and faith groups, charities and other voluntary organisations, and local businesses and enterprises. The immediate role of the WMCA has seen it use the convening power of the Mayor and the 'strategic headroom' provided by its regional and leadership role to bring together stakeholders locally, regionally and nationally; as well as campaign and lobby for support nationally, to meet the immediate challenge faced.	5	3	15	10		**Our Staff** • A key theme of activity for the SLT • 6 bespoke facilitated rountable events for staff are being arranged to consider the cost of living crisis • Feedback from those events wil go to the leadership forum in December and next steps considered and communciated to staff thereafter. **Citizens; The people and businesses of the West Midlands** The question is what role if any does the CA have, SINZ colleagues are looking to produce a paper for the SLT which will set out some options for what the SLT might want to do, these will likely fall into the following broad categories: • Short term – We will consider what action Local Authorities are taking in the short term. We need then to decide our role in relation to these Authorities; are we a convenor looking to bring them together to increase value? We are also looking at growing our understanding of what other CAs are doing. • Medium term - We need to better understand the problem across our region, which may require commissioning some work to more fully understand the effects of the CLC on citizens and businesses of the WM. • Longer Term - Use the medium term information to help inform any decisions on where we might be able to intervene.

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Issue Priority	Issue Ref	Issue Title	Issue Description	Issue Owner	Issue Due date	Action Title	Action Description	Action Owner	Action due date	Action Status	Issue Status	Over all Status	Lessons Learned Initiated
Red	SRR-I001	Metro - 2GT fleet crack propagation (Suspension of all services from 13 November and 21 March).	Temporary repairs were being made to the 2GT fleet, pending all trams having the full repair undertaken which is in progress. The temporary repairs can no longer be assured as being sufficient for the safe opreation of the tram.	Exec Director TfWM	Dec-21	Repair programme	Programme for repair of 2G trams in Wednesbury and Gemini has been closely monitored and progress shared. The option to repair in Wednesbury is no longer available as the depot expansion continues and the next step requires an off-site location. Dudley VLR is the first choice, but commercial discussions with CAF are working towards securing the off site location within the next month. During suspension of services - communication with all customers and stakeholders on disruption, ensuring bus and rail operators accept Metro tickets, cease of trading in metro passes and direction of customers to bus/rail tickets. Working with rail and bus operaters to strengthen services for increased passenger numbers to ensure public transport options for affected customers	MMA	Ongoing	Open at Risk	Open at Risk	Open	
	SRR-I002	Metro - 3GT fleet; Compromised bolt identified on the fleet	Failure to articulation cover plate bolts preventing trams from running in service	Exec Director TfWM	Mar-22	Repair programme	3GT Quality issues have been resolved and the programme is closed.	MMA	Complete	Complete	Closed	Closed	
Red	SRR-I003	TfWM - Technical Financial Breach	A transport project has seen accrued value of works instructed and undertaken exceed the approved budget. This is an indication of a weakness in cost control practices, and represents a breach of financial regulations.	Exec Director TfWM	Dec-22	Breach of Financial Regulations	Independent investigation to be undertaken into the breach, to identify and correct any control failures, and to help minimise the risk of re-occurrence.	Exec Dir Finance	Ongoing	Open On Track	Open on Track	Open	

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Audit, Risk & Assurance Committee

Date	24 January 2023
Report title	Treasury Management Mid-Year Report 2022/23
Portfolio Lead	Cllr Bob Sleigh OBE
Accountable Chief Executive	Laura Shoaf Chief Executive Email: Laura.Shoaf@wmca.org.uk Tel: 0121 214 7444
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 Note the report

1. Introduction

1.1 The report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
3. Receipt by the full Board of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
4. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the delegated body is the Audit, Risk, and Assurance Committee:

1.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and includes the following:

- A review of the Authority's investment portfolio for 2022/23;
- A review of the Authority's borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23;
- Outlook for remainder of 2022/23

2. Treasury Management Mid-Year Review 2022/23

2.1 Table 1 shows WMCA borrowing and investments held at 1 April 2022 and 30 September 2022. It shows that net investments have increased by £10m mostly as a result of grants being received in advance of need as documented below.

	April 2022 £m	**Change**	**Sept 2022 £m**	**Notes**
Borrowing	(456.7)	(58.5)	(515.2)	Increase following uptake of £65m PWLB Certainty Rate loan (May 2022)
Investments	629.0	68.5	697.5	Increase due to receipt of grants in advance of need including AEB, Investment Programme, and City Region Sustainable Transport Settlement (CRSTS)
Net Investments	**172.3**	**10.0**	**182.3**	

3 Borrowing Activity

3.1 Borrowing of £335m was undertaken in financial year 2021/22 to unwind a proportion of WMCA's historic under-borrowed capital financing position and mitigate against interest rate rises. The Authority accessed £200m of Public Works Loans Board (PWLB) borrowing that it had previously successfully bid for at the Government's Local Infrastructure Rate (Gilts + 60 basis points on the transaction date.) It was also successful in obtaining £10m of borrowing from the newly formed UK Infrastructure Bank (UKIB) at an equivalent rate. £125m of PWLB borrowing at the Certainty Rate (Gilts + 80 basis points on the transaction date) was also secured.

3.2 A further £65m of PWLB Certainty Rate borrowing was secured in May 2022 linked specifically to the existing capital financing requirements of the Investment Programme. The WMCA cash flow forecast is updated daily, and latest versions suggest there will be no further requirement to borrow in 2022/23.

4 Historic Borrowing

4.1 The main source of historic borrowing for WMCA has been the PWLB. The Director of Finance continues to review the opportunities to reschedule debt and works closely with specialist treasury advisors to explore alternative best value borrowing options. No rescheduling has taken place to date in 2022/23. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

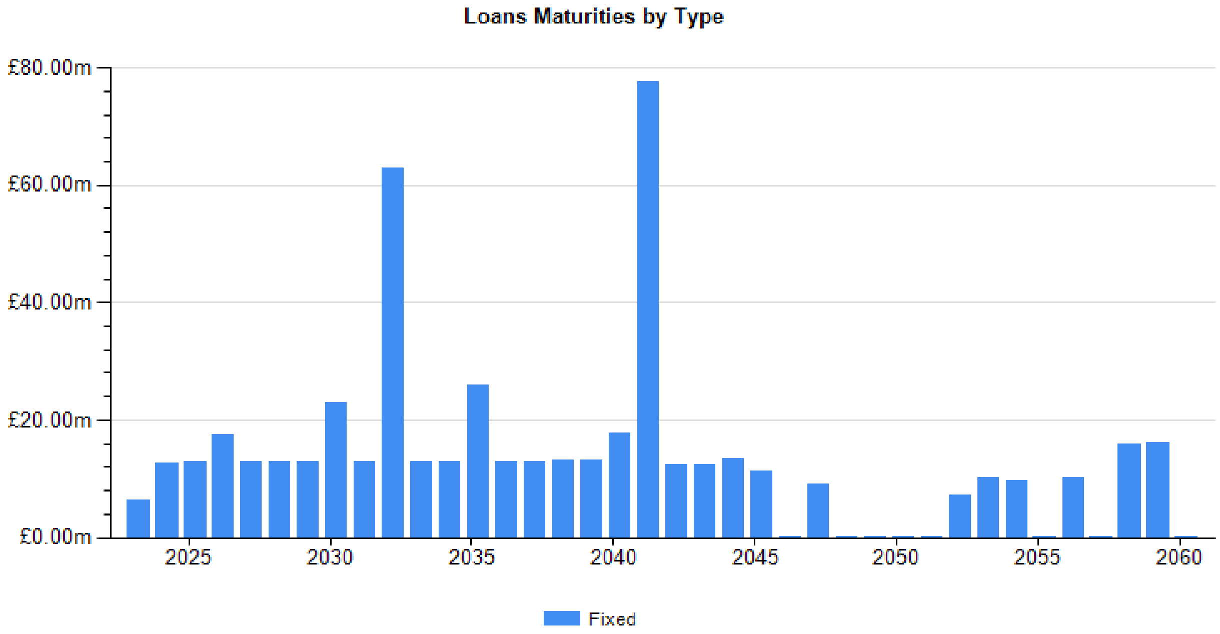
4.2 Table 2 shows borrowing held at 1st April 2022 and 30th September 2022. It shows that borrowing has increased by £58.5m due to the uptake of a £65m PWLB loan (see 3.2) offset by annuity principal repayments during the year.

	Balance at 1 April 2022 £m	**Repaid in Year £m**	**Raised in Year £m**	**Balance at 30 Sept 2022 £m**
PWLB	432.0	(6.3)	65.0	490.7
Barclays	10.0	-	-	10.0
Ex WM County Council	4.7	-	-	4.7
UKIB	10.0	(0.2)	-	9.8
Total Long-Term Borrowing	**456.7**	**(6.5)**	**65.0**	**515.2**

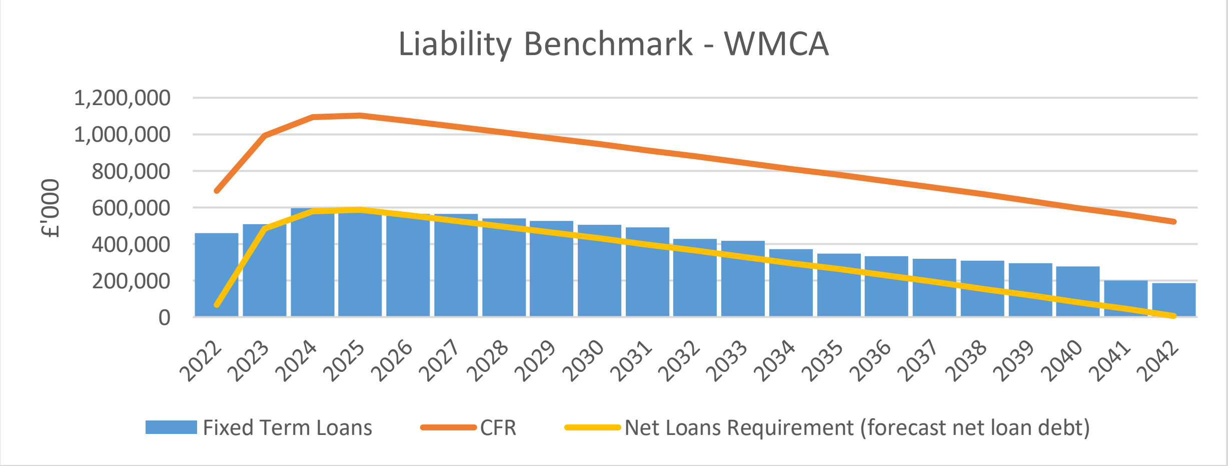
4.3 The £65m PWLB loan was taken at the Certainty Rate (Gilts + 80 basis points on the transaction date) and is linked specifically to service existing capital financing requirements of the Investment Programme.

5 Long Term Debt Profile and Liability Benchmark

5.1 The chart below outlines the maturity profile of existing WMCA debt. The next significant single maturity will occur in 2025/26 with sporadic maturities from that point onwards. The maturity profile is important for WMCA to monitor refinancing risk – that is, to ensure when new debt is taken out sufficient gaps are maintained between maturities to aid cash planning. It is possible that upon maturing, WMCA will need to re-finance the debt, but these decisions will be taken at the point of maturity, influenced by available cash levels and the prevailing rates of interest at the time.



5.2 In consideration of its borrowing strategy WMCA also has regard to its **liability benchmark**, a mandatory indicator as prescribed by the CIPFA Treasury Management Code of Practice. This plots the expected path of its Capital Financing Requirement (CFR or, underlying need to borrow) over time and then overlays with minimum revenue provision (sums set aside for the repayment of debt), cash backed balances and the existing debt profile. The outcome produces a benchmark for new borrowing/refinancing which can be assessed against interest rate forecasts for sensitivity. The chart below shows WMCA's revised benchmark for 2022/23 onwards which is heavily influenced by the borrowing need arising from the WMCA Investment Programme as per the first devolution deal in 2016:



6. Investment Activity

6.1 As at the 30 September 2022, all short-term investments have given a return to the Authority of **£3.32m**. All treasury management activities undertaken during the year complied fully with the Annual Investment Strategy (contained within the Treasury Management Strategy Statement) approved by WMCA Board in February 2022. Investments are placed directly with financial institutions, or using various money market brokers: IdealTrade.net, ITS, Tradition, Tullet Prebon, Martin Brokers, BGC and King & Shaxson.

6.2 Table 3 shows investments held **as at the 30 September 2022** totalled £697.5m, split into the following categories:

Class	Principal Outstanding £m	Average Return %
Fixed Term Deposits	590.0	0.98
Bonds / Gilts	49.7	1.86
Money Market Funds	30.8	2.04
Bank Call Accounts	21.6	1.28
Strategic Investments (>364 days)	5.4	4.10
Total Investments	**697.5**	

A detailed list of all investments is included at Appendix A.

6.1 The interest rate environment has been extremely volatile over the first half of the financial year. Yields (and yield expectations) have risen considerably. As such, the total forecast investment income for the second half of 2021/22 remains elevated and has been factored into WMCA forecasting and medium-term financial plans.

6.2 Within the Annual Investment Strategy set out to Board in February 2021 it was noted that "*WMCA will continue to diversify into more secure and/or higher yielding asset classes during 2021/22. This is especially the case for the estimated £10m that is available for longer-term investment to ensure MiFID compliance."* Following evaluation of applicable investment products, WMCA has placed two strategic investments totalling £5m in year with the CCLA Local Authority Property Fund (LAPF) and Fundamentum Social Housing REIT. Dividend yields are c4.4% and c3.8% respectively. The investment horizon for these funds is set at a minimum of five years.

7 Performance measurement and Treasury Indicators

7.1 The WMCA treasury management function participates in benchmarking which compares WMCA's treasury management performance with other Local Authorities, to ensure that relative to other local authorities the Authority is achieving a fair investment return without any undue risk. Performance is also regularly reviewed at the monthly Treasury Management Group.

7.2 The Treasury Management Strategy approved by WMCA Board in February agreed a number of Treasury Management Indicators which as at the mid-year point have all been complied with as follows:

Indicator	Target	Status
Credit Risk	A Minus	Green
Liquidity Risk	£20m Minimum	Green
Price Risk	< £10m invested longer than 1 year	Green
Refinancing Risk	Under 1year 75% Max 1 to 2 Years 50% Max 2 to 5 years 70% Max 5 to 10 Years 70% Max 10 Years and Over 70% Max	Green

7.3 In addition to the above, compliance with the debt limit is confirmed. WMCA debt stands at £515.3m following the uptake of a £65m PWLB Certainty rate loan during the financial year. For clarity, the published operational and authorised limits for debt are £781m and £821m respectively. WMCA has approval from HM Treasury (HMT) and Dept for Levelling Up, Housing and Communities (DLUHC) to borrow for all its functions subject to operating within an agreed debt cap. The cap (set at £1.042bn) runs co-terminus with the 5-year gateway review period and is currently under negotiation with HMT.

7.4 In summary, the Section 151 Officer can confirm that all treasury management activities undertaken during the first half year complied fully with the CIPFA Code of Practice and the WMCA Treasury Management Strategy.

8 Borrowing Update

8.1 WMCA are closely monitoring external debt markets and developing appropriate debt strategies in light of the need to fund the Investment Programme over the Medium-Term Financial Plan timeline. The anticipated debt requirement published within the 2022/23 Treasury Management Strategy was as follows:

2022/23 TM Strategy	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Forecast New Debt	125.0	335.0	45.0	20.0

8.2 Following re-forecasting of the capital programme in 2022/23 and in combination with the continuing significant level of grants received in advance, it is likely that the quantum of debt undertaken in 2022/23 and 2023/24 will be lower than originally forecast. As indicated in 3.2, after the uptake of £65m PWLB borrowing in May 2022 no further borrowing is anticipated in year. Consequently, WMCA will only look to borrow where there is a clear and obvious need with affordability and the “cost of carry” remaining the key influences on WMCA’s borrowing strategy

8.4 Market debt alternatives remain available to WMCA; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

9. Outlook for the remainder of 2022/23 and Medium Term

9.1 The most recent economic forecast from our independent treasury advisors, Link Group, now includes 4 base rate rises over the remainder of 2022/23:

- in November 2022 (to 3.25%)
- December 2022 (to 4.00%)
- February 2023 (to 4.50%)
- and finally, March 2023 (to 5.00%.)

9.2 Further out bank rate is predicted to fall in the latter half of 2023 to 4.5% before further reductions to 3% in 2024 and 2.5% in 2025 as monetary policy is loosened to offset recessionary impacts.

9.3 Market expectations for what the Monetary Policy Committee (MPC) will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in Link Group’s forecast (5%) is lower than the peak of 5.50% - 5.75% priced into the financial markets at the time of writing.

9.4 In the wider economy, the second quarter of 2022/23 saw:

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being although revisions to historic data mean the economy is still below pre-pandemic levels;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September.

Investments held **as at 30 September 2022**

Class	Type	Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
Deposit	Fixed	10/02/22	09/02/23	Isle of Wight Council	0.1200%	-5,000,000.00
Deposit	Fixed	29/04/22	31/10/22	Derbyshire County Council	0.1000%	-10,000,000.00
Deposit	Fixed	28/02/22	27/02/23	London Borough of Croydon	0.2000%	-10,000,000.00
Deposit	Fixed	30/04/21	31/10/22	Places for People	0.8500%	-5,000,000.00
Deposit	Fixed	15/12/21	17/10/22	West Dunbartonshire Council	0.1800%	-5,000,000.00
Deposit	Fixed	28/02/22	28/11/22	Aberdeen City Council	0.2200%	-5,000,000.00
Deposit	Fixed	21/01/22	20/01/23	Eastbourne Borough Council	0.2500%	-10,000,000.00
Deposit	Fixed	14/02/22	16/01/23	Peterborough City Council	0.3000%	-5,000,000.00
Deposit	Fixed	25/04/22	25/01/23	Eastleigh Borough Council	0.3000%	-10,000,000.00
Deposit	Fixed	29/04/22	30/01/23	Lancashire County Council	0.5000%	-10,000,000.00
Deposit	Fixed	25/05/22	24/02/23	Windsor and Maidenhead Royal Borough Council	0.5000%	-5,000,000.00
Deposit	Fixed	20/04/22	20/02/23	Blackpool Council	0.5000%	-5,000,000.00
Deposit	Fixed	03/05/22	28/02/23	Monmouthshire County Council	0.4500%	-5,000,000.00
Deposit	Fixed	28/04/22	27/02/23	Brentwood Borough Council	0.4500%	-5,000,000.00
Deposit	Fixed	04/05/22	06/02/23	East Dunbartonshire Council	0.6000%	-5,000,000.00
Deposit	Fixed	03/05/22	03/02/23	Gloucester City Council	0.5000%	-5,000,000.00
Deposit	Fixed	17/05/22	17/02/23	Somerset West and Taunton Council	0.6500%	-10,000,000.00
Deposit	Fixed	19/04/22	21/11/22	Kirklees Council	0.6000%	-5,000,000.00
Deposit	Fixed	19/04/22	21/11/22	Aberdeen City Council	0.6000%	-5,000,000.00
Deposit	Fixed	03/05/22	03/02/23	Blackpool Council	0.6500%	-5,000,000.00
Deposit	Fixed	10/05/22	10/01/23	Aberdeenshire Council	0.6200%	-5,000,000.00
Deposit	Fixed	30/06/22	28/02/23	Windsor and Maidenhead Royal Borough Council	0.7000%	-5,000,000.00
Deposit	Fixed	19/04/22	19/01/23	Kirklees Council	0.6500%	-5,000,000.00
Deposit	Fixed	25/05/22	27/02/23	Medway Council	0.7000%	-10,000,000.00
Deposit	Fixed	30/05/22	28/02/23	London Borough of Barking and Dagenham	0.8000%	-10,000,000.00
Deposit	Fixed	18/03/22	19/12/22	London Borough of Southwark	0.7500%	-5,000,000.00
Deposit	Fixed	21/04/22	23/01/23	Cheshire East Council	0.7500%	-5,000,000.00
Deposit	Fixed	26/04/22	26/01/23	Guildford Borough Council	0.8000%	-10,000,000.00
Deposit	Fixed	22/04/22	24/10/22	Slough Borough Council	1.1500%	-5,000,000.00
Deposit	Fixed	29/04/22	28/10/22	Falkirk Council	0.8000%	-5,000,000.00
Deposit	Fixed	20/04/22	20/12/22	Falkirk Council	0.8500%	-5,000,000.00
Deposit	Fixed	20/04/22	20/10/22	Blackburn with Darwen Borough Council	0.8000%	-5,000,000.00
Deposit	Fixed	14/03/22	31/10/22	Highland Council	0.8500%	-5,000,000.00
Deposit	Fixed	23/03/22	31/10/22	West Dunbartonshire Council	0.9000%	-5,000,000.00
Deposit	Fixed	15/03/22	31/10/22	Warrington Borough Council	0.9000%	-5,000,000.00
Deposit	Fixed	27/04/22	27/10/22	Brentwood Borough Council	0.8500%	-5,000,000.00
Deposit	Fixed	15/03/22	31/10/22	Oadby and Wigston Borough Council	0.8500%	-5,000,000.00
Deposit	Fixed	25/03/22	22/12/22	Epping Forest District Council	1.2300%	-6,000,000.00
Deposit	Fixed	21/06/22	21/04/23	Somerset West and Taunton Council	1.2000%	-5,000,000.00
Deposit	Fixed	31/03/22	15/03/23	Southern Housing Group LTD	1.7500%	-5,000,000.00
Deposit	Fixed	07/04/22	06/04/23	Swale Borough Council	1.0500%	-5,000,000.00
Deposit	Fixed	16/05/22	16/11/22	Eastleigh Borough Council	0.8500%	-5,000,000.00
Deposit	Fixed	26/05/22	27/02/23	Aberdeen City Council	0.9000%	-5,000,000.00

Deposit	Fixed	29/04/22	28/04/23	London Borough of Croydon	1.0000%	-10,000,000.00
Deposit	Fixed	08/04/22	10/10/22	Goldman Sachs International	1.4100%	-10,000,000.00
Deposit	Fixed	20/04/22	20/01/23	Redcar and Cleveland Borough Council	0.9300%	-6,000,000.00
Deposit	Fixed	24/05/22	24/01/23	Aberdeenshire Council	0.8700%	-5,000,000.00
Deposit	Fixed	16/05/22	16/01/23	Eastleigh Borough Council	0.9000%	-5,000,000.00
Deposit	Fixed	22/04/22	22/03/23	West Dunbartonshire Council	0.9500%	-5,000,000.00
Deposit	Fixed	30/06/22	28/02/23	Liverpool City Council	0.9000%	-10,000,000.00
Deposit	Fixed	29/06/22	04/01/23	Suffolk County Council	0.8500%	-5,000,000.00
Deposit	Fixed	13/06/22	13/01/23	Suffolk County Council	0.8500%	-5,000,000.00
Deposit	Fixed	15/06/22	15/12/22	Surrey Heath Borough Council	0.7500%	-5,000,000.00
Deposit	Fixed	15/06/22	15/12/22	Surrey Heath Borough Council	0.7500%	-5,000,000.00
Deposit	Fixed	30/06/22	03/01/23	Leeds City Council	0.7500%	-10,000,000.00
Deposit	Fixed	30/05/22	30/11/22	Liverpool City Council	0.7500%	-5,000,000.00
Deposit	Fixed	07/04/22	06/04/23	TORONTO DOMINION BANK	1.8550%	-5,000,000.00
Deposit	Fixed	17/08/22	16/08/23	Moray Council	1.3000%	-5,000,000.00
Deposit	Fixed	23/06/22	23/12/22	Surrey Heath Borough Council	0.8000%	-5,000,000.00
Deposit	Fixed	11/04/22	11/10/22	Nordea Bank AB	1.3500%	-5,000,000.00
Deposit	Fixed	11/04/22	11/10/22	National Westminster Bank plc	1.3000%	-10,000,000.00
Deposit	Fixed	14/04/22	17/10/22	Stockport Metropolitan Borough Council	0.7500%	-10,000,000.00
Deposit	Fixed	20/04/22	21/10/22	South Somerset District Council	0.7500%	-11,000,000.00
Deposit	Fixed	14/04/22	13/04/23	Plymouth City Council	1.0000%	-10,000,000.00
Deposit	Fixed	25/04/22	25/10/22	Wrexham County Borough Council	0.7500%	-10,000,000.00
Deposit	Fixed	25/04/22	28/10/22	Telford and Wrekin Borough Councill	0.8500%	-5,000,000.00
Deposit	Fixed	01/04/22	03/01/23	Lancashire County Council	1.0000%	-10,000,000.00
Deposit	Fixed	15/03/22	24/10/22	Sedgemoor District Council	0.8800%	-5,000,000.00
Deposit	Fixed	29/04/22	03/01/23	Blackpool Council	0.9000%	-5,000,000.00
Deposit	Fixed	22/07/22	23/01/23	Cheshire East Council	1.1000%	-5,000,000.00
Deposit	Fixed	30/08/22	29/08/23	Stockport Metropolitan Borough Council	1.2500%	-10,000,000.00
Deposit	Fixed	05/09/22	05/09/24	Cambridgeshire County Council	1.8000%	-10,000,000.00
Deposit	Fixed	20/09/22	20/03/23	Leeds City Council	1.0500%	-10,000,000.00
Deposit	Fixed	20/09/22	18/09/23	Basildon Borough Council	1.4500%	-10,000,000.00
Deposit	Fixed	28/09/22	28/06/23	Guildford Borough Council	1.2500%	-10,000,000.00
Deposit	Fixed	30/09/22	29/09/23	Slough Borough Council	1.7500%	-10,000,000.00
Deposit	Fixed	23/08/22	22/08/23	Broxbourne Borough Council	1.6000%	-5,000,000.00
Deposit	Fixed	26/08/22	26/05/23	Police & Crime Commissioner for Merseyside	1.2500%	-5,000,000.00
Deposit	Fixed	27/05/22	28/11/22	Goldman Sachs International	1.7100%	-10,000,000.00
Deposit	Fixed	19/08/22	18/08/23	Broxbourne Borough Council	1.6000%	-2,000,000.00
Deposit	Fixed	01/06/22	01/12/22	Santander UK plc	1.6300%	-10,000,000.00
Deposit	Fixed	05/04/22	07/11/22	National Westminster Bank plc	1.3500%	-10,000,000.00
Deposit	Fixed	09/06/22	09/12/22	Standard Chartered Bank	1.9000%	-5,000,000.00
Deposit	Fixed	14/07/22	14/03/23	West of England Combined Authority	1.6500%	-5,000,000.00
Deposit	Fixed	24/08/22	23/08/23	South Cambridgeshire District Council	2.0000%	-5,000,000.00
Deposit	Fixed	30/06/22	31/03/23	Epping Forest District Council	2.0000%	-5,000,000.00
Deposit	Fixed	25/07/22	25/01/23	Birmingham City Council	1.7900%	-10,000,000.00
Deposit	Fixed	18/11/21	18/11/22	Optivo Homes Ltd	0.5000%	-5,000,000.00
Deposit	Fixed	08/09/22	08/09/23	Close Brothers	3.9000%	-5,000,000.00
Fixed Total					**0.9784%**	**-590,000,000.00**
Deposit	Call - 60 days notice	19/10/21		Barclays Bank plc	2.2500%	-20,000,000.00

Call - 60 days notice Total					**2.2500%**	**-20,000,000.00**
Deposit	Call	24/09/21		HSBC Bank plc	0.3000%	-1,600,000.00
Call Total					**0.3000%**	**-1,600,000.00**
Deposit	MMF	16/04/20		CCLA The Public Sector Deposit 4	1.9482%	-13,000,000.00
Deposit	MMF	16/11/20		HSBC Global Liquidity Sterling G	2.1300%	-17,800,000.00
MMF Total					**2.0532%**	**-30,800,000.00**
Deposit	Bond	04/08/22	12/06/23	DNB Bank ASA	2.6788%	-4,945,521.38
Deposit	Bond	12/08/22	05/12/22	Svenska Handelsbanken	2.2276%	-1,259,547.34
Deposit	Bond	12/08/22	28/12/22	Swedbank AB	2.2128%	-3,839,262.15
Deposit	Bond	31/05/22	14/12/22	Westpac Banking Corporation	2.0046%	-5,020,517.65
Deposit	Bond	29/04/22	23/01/23	Coventry Building Society	2.2107%	-4,783,337.23
Deposit	Bond	25/04/22	24/01/23	Nationwide Building Society	2.0764%	-4,960,286.20
Deposit	Bond	25/04/22	24/01/23	Nationwide Building Society	2.6267%	-4,940,210.40
Deposit	Bond	08/04/22	31/10/22	European Investment Bank	1.1739%	-5,037,174.34
Deposit	Bond	06/04/22	31/01/23	UK Government	1.2294%	-4,972,249.03
Deposit	Bond	07/04/22	15/12/22	Nordic Investment Bank	1.0221%	-5,003,526.55
Deposit	Bond	09/03/22	28/12/22	Swedbank AB	1.3958%	-5,009,127.00
Bond Total					**1.8605%**	**-49,770,759.27**
Deposit	VNAV Fund	22/06/21		Fundamentum Social Housing REIT	3.8037%	-2,575,000.00
Deposit	VNAV Fund	28/05/21		CCLA Local Authorities Property Fund	4.3612%	-2,794,204.98
VNAV Fund Total					**4.0938%**	**-5,369,204.98**
Deposit Total						**-697,539,964.25**

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Audit, Risk & Assurance Committee

Date	24 January 2023
Report title	2023/24 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 2023/24 Treasury Management Policy Statement (TMPS) (Section 2 of this report) for onward approval by WMCA Board in February 2023.

2 Review and endorse the Draft 2023/24 Treasury Management Strategy (TMS) (Appendix 1) including the 2023/24 Investment Strategy and criteria for specified and non-specified investments (Appendix 2) for onward approval by WMCA Board in February 2023.

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 (the CIPFA Code) in discharging all its financial responsibilities. An updated Code (the 2021 edition) was published following consultation in December 2021. CIPFA indicated at the time that the Code would have a 'soft launch' meaning that authorities had until March 2023 to adopt the Code and implement its recommendations. This report and accompanying Treasury Management Practices are fully compliant with the updated Code.

1.2 The revised CIPFA Code requires WMCA to implement the following:

1.2.1 **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
1.2.2 **Long-term treasury investments** (including pooled funds) are to be classed as commercial investments unless justified by a business case
1.2.3 **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year
1.2.4 Amendment to the **knowledge and skills register for officers and members** involved in treasury management function – to be proportionate to the size and complexity of the treasury management conducted by each authority
1.2.5 **Reporting to members** is to be done quarterly, specifically the monitoring and performance against all forward-looking prudential indicators (including forecast debt and investments) The monitoring is not required to be taken Board but should, as a minimum be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.

1.3 In relation to Treasury Management, the Code states that an organisation should delegate responsibility for the implementation and regular monitoring of its Treasury Management Policies to an independent scrutiny function. At WMCA that function is carried out by Audit, Risk & Assurance Committee. Officers are subsequently obliged to operate within the Treasury Management Strategy parameters as set and monitored by the scrutiny function.

1.4 ARAC members last received an overview of the regulatory environment and WMCA's Treasury Management Practices by our external advisors, Link Group, in January 2022. A refreshed training session has been arranged to coincide with the publication of the 2023/24 Treasury Management Strategy.

1.5 The report sets out WMCA's Treasury Management Policy Statement (below) and Treasury Management Strategy (Appendix 1) for review and endorsement by ARAC prior to submission to WMCA Board in February 2023.

2 Treasury Management Policy Statement

2.1 The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was revised in December 2021. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities; and

- Suitable Treasury Management Practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

2.2 The 2021 CIPFA Code recommends that authorities should:

- Put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

- Policies and practices make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

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

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

- WMCA will create and maintain:
    - A Treasury Management Policy Statement, stating polices, 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's Standard of Professional Practice on Treasury Management.

2.4 The draft 2023/24 Treasury Management Policy Statement is shown below for review and endorsement by ARAC.

2023 / 2024 Treasury Management Policy Statement

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

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

(2) WMCA regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their implications for WMCA, and any financial instruments entered into to manage these risks.

(3) WMCA acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employ suitable comprehensive performance measurement techniques, within the context of effective risk management.

(4) The Authority's high level policies for borrowing, borrowing in advance and investments:

a. The Authority's borrowing will be affordable, sustainable, and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Authority transparency and control over its debt.

b. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

c. The Authority's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

3. WMCA 2023/24 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 2023/24 Treasury Management Strategy which features as Appendix 1 to this report; for onward approval by WMCA Board in February 2023.

3.3 The table below summarises the principal changes between the current (2022/23) strategy and that for financial year 2023/24:

Topic	2023/24	2022/23
Limits to Borrowing Activities – Operational Boundary and Authorised Limit indicators	• Included within Treasury Management Strategy per best practice guidance	• n/a – previously included in Capital Strategy
Borrowing Strategy – Liability Benchmark	• Inclusion of Liability Benchmark per revised Code	• n/a
Investment Criteria – Banks/Building Societies sector limit	• Maximum 50% of portfolio	• Unlimited
Investment Criteria – Use of Non – UK Sovereigns (Financial Institutions)	• Minimum sovereign rating of AA- • Up to 25% of portfolio (maximum 15% AA+ or below)	• £5m per foreign country

4. Treasury Management Practices

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

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

4.3 There are currently twelve individual practices which cover:

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

- Use of external service providers;
- Corporate governance.

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

4.4 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 WMCA Head of Major Funding, the Lead Treasury Accountant and other WMCA technical experts as required)
- Which delegates the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the WMCA's policy statement and TMPs and CIPFA's 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 2023/24

Introduction

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

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

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

The strategy for 2023/24 covers the following main areas:

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

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

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

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

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

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

Current Treasury Position

The overall treasury management portfolio as at 31st March 2022 and for the position as at 31st December 2022 are shown below for both borrowing and investments.

Table 1 Treasury Management Portfolio

	Actual	**Actual**	**Current**	**Current**
	Mar 22	**Mar 22**	**Dec 22**	**Dec 22**
Treasury Investments	**£m**	**%**	**£m**	**%**
Call Accounts - Banks	60.0	9.7	22.8	3.4
Local Authorities / Housing Associations	367.0	59.1	570.5	85.8
Banks / Financial Institutions	79.2	12.7	49.7	7.4
Debt Management Office / UK Gilts	50.0	8.0	4.9	0.8
Money Market Funds	60.0	9.7	11.5	1.7
Total Managed In House	**616.2**	**99.2**	**659.4**	**99.1**
Property Funds / REITs	5.2	0.8	5.3	0.9
Total Managed Externally	**5.2**	**0.8**	**5.3**	**0.9**
Total Treasury Investments	**621.4**	**100.0**	**664.7**	**100.0**
Treasury External Borrowing				
PWLB	432.0	94.6	488.4	91.7
Banks	20.0	4.4	19.8	3.7
Temporary Borrowing	0.0	0.0	20.0	3.7
Transferred Debt	4.7	1.0	4.7	0.9
Total External Borrowing	**456.7**	**100.0**	**532.9**	**100.0**
Net treasury investments/(borrowing)	**164.7**		**131.8**	

The Authority’s central 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	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Opening External Debt	457	511	598	585	573	562
New Borrowing	65	100	-	-	-	-
Repayments	11	13	13	12	31	12
Forecast Closing External Debt	**511**	**598**	**585**	**573**	**562**	**550**
Capital Financing Requirement (CFR)	710	982	1,034	1,033	1,005	978
Under Borrowing	199	384	449	460	443	428

WMCA has an increasing CFR – rising from a forecast £710m at the end of 2022/23 to £1,034m 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.

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 2023/24 to 2025/26.

Limits to Borrowing Activities

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

Table 3 WMCA Operational Boundary

£M	2023/24	2024/25	2025/26	2026/27	2027/28
Operational Boundary	982	1,034	1,033	1,005	978

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

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

Table 4 WMCA Authorised Limit 2023/24 – 2027/28

£M	2023/24	2024/25	2025/26	2026/27	2027/28
Authorised Limit	1,032	1,084	1,083	1,055	1,028

Prospects for Interest Rates

WMCA has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 19th December 2022. PWLB forecasts are for certainty rates, 20 basis points below PWLB standard rates, to which WMCA has agreed access.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

The central forecast reflects a view that the Bank of England's Monetary Policy Committee (MPC) will be keen to demonstrate its anti-inflation credentials by delivering a succession of further rate increases in 2023. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.50%.

Further ahead it is anticipated that the MPC will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation is expected to peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

In addition to the above, the Bank's plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening) has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

Borrowing Strategy

As at 31 December 2022 WMCA currently holds £513m of long-term loans, an increase of £234m on the previous year. The forecast in table 2 shows that WMCA will borrow a further £100m in 2023/24. This is a fixed rate forward funding loan arranged in 2022 to unwind a proportion of WMCA's previous under borrowing and mitigate against interest rate increases. 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: The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy - that is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then any further borrowing will be postponed.

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

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

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

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

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

- HM Treasury's lending facility (i.e., Public Works Loan Board)
- 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 and insurance funds (except West Midlands Local Government Pension Fund)

- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Short-term and variable rate loans: These loans leave WMCA exposed to the risk of short-term interest rate rises and are therefore 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).

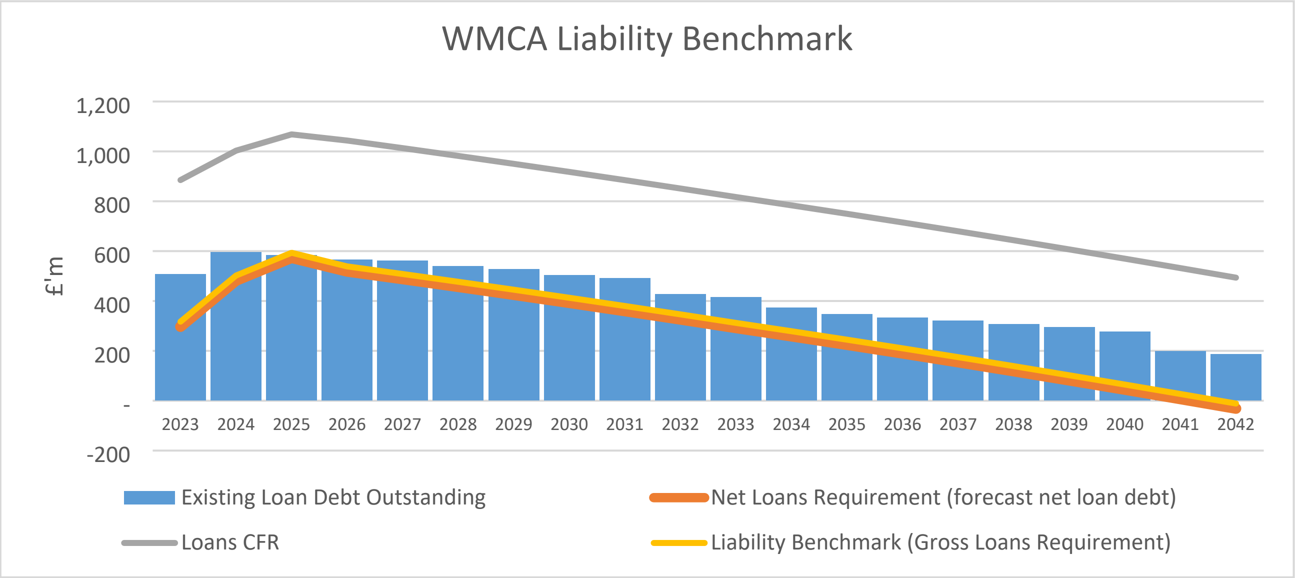
Liability Benchmarking

A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. WMCA's benchmark (see below) includes measurements up to 2042 (20 years)

There are four components to the LB: -

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

The outcome of the above produces a benchmark for new borrowing/refinancing which can be assessed against interest rate forecasts for sensitivity. The chart below shows WMCA's revised benchmark for 2023/24 onwards which is heavily influenced by the borrowing need arising from the WMCA Investment Programme as per the first devolution deal in 2016:



Debt rescheduling

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

Policy on Borrowing in Advance of Need

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

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

Annual Investment Strategy

Investment policy – management of risk

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

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

a) DLUHC's Guidance on Local Government Investments ("the Guidance")

b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")

c) CIPFA Treasury Management Guidance Notes 2021.

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

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

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

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

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

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

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

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

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

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

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

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

i) All investments will be denominated in sterling.

j) As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.)

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

Creditworthiness Policy

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

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

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

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

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

Table 5: Approved investment counterparties and limits

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	50 years	Unlimited[1]	Unlimited
Secured investments *	25 years	£20m	Unlimited
Banks and Building Societies (unsecured) *	13 months	£20m[1]	50% of portfolio
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 though current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed in than made insolvent, increasing the chance of WMCA maintaining operational continuity.

Investment Strategy

WMCA holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2022/23 WMCA's treasury average monthly investment balance has ranged between £690m and £813m. Levels are expected to fall in overall terms in 2023/24 but this is subject to the timing of government grant receipts and/or delays in capital expenditure profiling.

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

Strategy: Investments will be made with reference to 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 partially during the first quarter of 2023/24 prior to falling later in the year consideration will be given to keeping most investments as short term and/or variable initially. The regular stream of maturing investments brought about by this 'laddering' approach should provide opportunities to consistently improve underlying yield whilst still allowing flexibility to adjust if and when market circumstances alter.

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

Average earnings in each year	
2023/24	4.00%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Long term later years	2.80%

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

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

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

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

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

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

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

Investment limits: In order that WMCA's reserves will not be put at significant risk in the case of a single default, the maximum that will be lent to any one organisation (other than 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 6: Additional Investment limits

	Cash Limit
Any group of pooled funds under the same management	£20m per manager

Non UK Sovereigns (AA- minimum)	Up to 25% of portfolio (maximum 15% AA+ or below)

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

Use of External Providers

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

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

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

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

Treasury Management Indicators

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

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

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

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	**2023/24**	**2025/26**	**2026/27**
Limit on principal invested longer than a year	£25m	£25m	£25m

Related Matters

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

Financial Derivatives

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

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

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

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

Markets in Financial Instruments Directive

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

Investment Training

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

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

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

Treasury Management Consultants

WMCA uses Link Group as its external treasury management advisors.

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

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

APPENDIX 2

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

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

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

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

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

The investment policy proposed for the Authority is:

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

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

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

- The UK Government (such as the Debt Management Account Deposit Facility (DMADF), UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.

- A body that is considered of a high credit quality (such as a bank or building society) This category covers bodies with a minimum Short-Term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

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

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

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

Appendix 3

Environmental, Social and Governance (ESG) Risk Management

WMCA ESG Policy

Key Message:

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

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

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

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

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

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

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

West Midlands
Combined Authority

Audit, Risk & Assurance Committee

Date	24 January 2023
Report title	Housing investigation – Action plan
Accountable Chief Executive	Laura Shoaf, Chief Executive of the WMCA Email: Laura.Shoaf@wmca.org.uk Tel: (0121) 214 7444
Accountable Employee	Gareth Bradford, Executive Director, Housing, Property & Regeneration Email: Gareth.Bradford@wmca.org.uk Helen Edwards, Director, Law and Governance Email: Helen.Edwards@wmca.org.uk
Report has been considered by	

Recommendation(s) for action or decision:

1. To agree the Action Plan in response to the recommendations of the independent investigation,
2. To agree that an update on progress in relation to the Action Plan be brought back to the Committee in September 2023.

1. Purpose

To consider and agree the Action Plan in response to the recommendations from the independent investigation carried out by CBRE.

2. Background

A complaint was received by the WMCA on 19 January 2022, and following consideration by the WMCA's complaints procedure an independent investigation was initiated and completed by CBRE.

The complaint raised two concerns;

I. That the WMCA was distorting the real estate market by purchasing sites at higher values and was not taking into account affordable housing and reclamation requirements properly, thus increasing market prices,

II. That the WMCA was funding private developers by providing grant funding to address reclamation costs and affordable housing requirements.

As part of the investigation CBRE considered the following areas in relation to a number of identified sites:

- Context – how the site was bought to the WMCA attention
- Determination to process to acquisition/grant
- Instruction to the valuer
- Review of the valuations
- Consideration of the Investment Panel/Committee report

CBRE also interviewed existing and former WMCA employees who had been involved in the identified projects, the interviews were carried out on a voluntary basis.

The Land and Housing activity carrired out by the WMCA sits largely within the Single Commissioning Framework (SCF) for Housing. This framework focuses on loans and grants to support regeneration and housing but also acts as an overall guide to activity in this field.

The SCF was adopted in March 2019 and some of the projects identified pre dated this or were being developed as it was adopted.

The final report of the *WMCA Land and Housing Programme* was completed in September 2022 and considered by the Audit and Risk Assurance Committee at its meeting on 4 October 2022.

The recommendations contained in the report are:

I. Acquistion valuations should more clearly reference assumption and these should be articultated in deicion making reports.
II. WMCA should re consider the practice which appears to be common place of instructing valuers to assume no S106/affordable housing provision. Valuers should seek to reach their own conclusions on these issues and allow for these items/planning risk as they fit. This should eliminate the potential for market distortion.
III. Given WMCA's policy requirement to ensure 20% affordable housing on sites it supports and the potential confusion that this can cause CBRE would suggest that valuations should include a market valuation in line with recommendation 2 above, accompanies by a valuation which includes the assumption of 20% affordable housing. These should be references in reports to Investment Board etc.
IV. There is need for WMCAto review its decision making process for all housing and regeneration investments including those to Investment Panel and Investment Board. This review should include the Directors of Housing, Finance and Governance.

V. Where there are cases when eleceted members might chose to exceed red book valuations for sites such as the costs of a CPO, or strategic rationales to assemble wider sites, then these should be articulated and where possible quantified.

VI. Where grants are being made to developers, reports should set out more clearly the rationale for acceptable market norms for profit margins where this is used as a justification for the amount of grant to be paid.

The above recommendations have been considered and agreed by the relevant officers.

An Action plan (attached at Appendix 1) has now been produced. The Action Plan seeks to address the concerns identifiedin the CBRE report, to mitigate against any future similar concerns being raised and to continually improve the service the WMCA is able to provide to its residents.

Delivery of the agreed actions will be monitored with a further report on progress and delivery to be provided to the September meeting of this committee.

3. Financial Implications

There are no direct financial implications arising from this report although it is likely that this matter will feature in the published commentary on the Authority's Value for Money arrangements which will form part of Grant Thornton's Auditor's Annual Report.

Failure to implement the planned actions as set out in the appendix could lead to continuing challenge from our external auditors around securing Value for Money and could potentially affect the Authority's audit opinion adversely.

4. Legal Implications

There are no direct legal implications in relation to this report. However a failure to implement the changes in process and procedure recommended within the action plan could lead to decisions being less robust, and potentially open to challenge.

5. Equalities Implications

Not applicable.

6. Inclusive Growth Implications

Not applicable.

7. Geographical Area of Report's Implications

Future investment in the Housing and Regeneration programme may consider investment and funding opportunities in all districts across all Constituent and Non-constituent areas.

8. Other Implications

Not applicable.

9. Schedule of Background Papers

Appendix 1 – Housing Action plan

Housing Investigation October 2022

Recommendations and Action Plan – draft v0.2

Recommendation	Agreed Action Responsibility	Due date
Acquisition valuations should more clearly reference assumptions, and these should be articulated in decision making reports.	**Agreed action:** All future valuations will be based on current market conditions and prevailing planning policy and all assumptions will be made clear within any related decision-making reports. Where assumptions are being made, a valuation based upon the Open market Value without assumptions and one with assumption (stating what these are) shall be included in the decision making document, together with an explicit statement as to the risks associated with those assumptions and any mitigants. Any variation to the proposed use will have an alternative valuation undertaken for comparison. **Responsibility:** Nigel Ford, Head of Property & Strategic Assets	With immediate effect
WMCA should reconsider the practice which appears to be commonplace of instructing valuers to assume no S106/affordable housing provision.		
Given WMCA's (current) policy requirement to ensure 20% affordable housing on sites it supports and the potential confusion that this can cause, CBRE would suggest that valuations should include a market valuation in line with recommendation 2 above, accompanied by a valuation which includes the assumption of 20% affordable housing. These should be referenced in reports to Investment Board etc.	**Agreed action:** All acquisitions and disposals to have both an open market value reflecting current market conditions and local prevailing planning policy alongside any valuation that reflects a different proposal e.g. higher affordable nos.; density; net zero carbon; any construction requirements (e.g. modular), design quality etc. that is prevailing WMCA corporate policy or a scheme specific requirement. **Responsibility:** Nigel Ford, Head of Property & Strategic Assets	With immediate effect with any new acquisition or disposal with full policy/procedure in place by end March '23.
There is need for WMCA to review its decision-making process for all housing and regeneration investments including those to Investment Panel and Investment Board. This review should include the Directors of Housing and Regeneration, Finance, and Governance.	**Agreed action:** Review of process to be undertaken, including of the report template, clearance and sign-off process and terms of reference for Investment Board and Investment Panel. Review training needs of Investment Panel members to ensure there is clarity over their role and purpose. **Responsibility:**	June '23 – to align with WMCA AGM.

	Dan Essex, Governance Services Manager	
Where there are cases when the approval body (Executive Director, Statutory Officers, Investment Board or WMCA Board) might choose to exceed red book valuations for sites such as the costs of CPO, or strategic rationales to assemble wider sites then these should be articulated and where possible quantified.	**Agreed action:** This will be a standard approach for all future acquisitions and equally for any sale under market value to reflect any constraints / obligations that the market would not normally withstand. Subject to approval of new procedure and stance to be verified by Strategic Assets Board. Where there is a recommended sale below market value or acquisition above market value, recommendations will need to be explicit in the wider benefits of such a decision given the role of WMCA in regeneration and other outputs e.g. acting as a catalyst to stimulate additional external investment. The decision should be documented to note what has been considered. Before Investment Board approval schemes must be signed off by statutory officers under delegated sign off. **Responsibility:** Nigel Ford, Head of Property & Strategic Assets	With immediate effect for all new acquisition or disposals, and full policy and procedure in place by end March '23. With Immediate effect.
Where grants are being made to developers, reports should set out more clearly the rationale for acceptable market norms for profit margins where this is used as a justification for the amount of grant to be paid.	**Agreed action:** Investment Case reports to include agreed text setting out profit margin rationale and market comparisons as part of standard template. **Responsibility:** Nigel Ford, Head of Property & Strategic Assets Rob Lamond, Head of Strategy & Analysis (Housing, Land & Regeneration)	Feb '23

West Midlands
Combined Authority

Audit, Risk & Assurance Committee

Date	24 January 2023
Report title	Investigation into financial breach - Metro city centre extension, Wolverhampton
Accountable Chief Executive	Laura Shoaf, Chief Executive of the WMCA Email: Laura.Shoaf@wmca.org.uk
Accountable Employee	Helen Edwards, Director, Law and Governance Email: Helen.Edwards@wmca.org.uk
Report has been considered by	n/a

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

Note the actions undertaken and the current position in relation to the investigation into the breach of financial regulations of the Metro, Wolverhampton city centre extension programme, delivered as part of the Wolverhampton Interchange Programme, and reported to WMCA Board on 16th December 2022.

1. Purpose

1.1 A briefing was provided to WMCA Board concerning the capital pressures of the TfWM capital programme, where it was recommended to board to commission a formal independent investigation through the Authority’s Chair of Audit, Risk and Assurance Committee in respect of this scheme where cost control issues have resulted in a breach of financial regulations.

1.2 WMCA Board has noted the breach of financial regulations and approved the commissioning of a formal investigation to be undertaken immediately. The results of which should be reported to the WMCA and it’s constituent leaders.

1.3 Following the appointment of Mazars to undertake this investigation on 4th January 2023, Audit, Risk and Assurance is to be provided with a verbal update on progress to date. It is intended to report the findings to the WMCA Board on 10 February.

2. Background

2.1 Delivery of the Wolverhampton Interchange scheme to extend the Midland Metro light railway system was commissioned at a cost of £33.3m, with funding for the project being provided through a government grant, with additional contributions being made by WMCA and the City of Wolverhampton Council. Financial monitoring had identified that the costs of work had significantly exceeded the budget provision, including contingency allowances, without the required approvals from WMCA to the sum of c.£9.6m, resulting in a breach of the organisation's financial regulations.

2.2 WMCA Financial Regulations state that; any proposal to increase an approved capital budget by a variance of more than 10% of the existing budget shall require a report to be submitted to the WMCA Board. Variances within these parameters are delegated to the appropriate Chief Officer within the agreed Scheme of Delegations and will be reported to the WMCA Board in Financial Monitoring Reports.

2.3 In response to the Boards request, a Terms of Reference was prepared and approved by the WMCA's Monitoring Officer and Chair of Audit, Risk and Assurance committee on 19th December (attached as appendix 1). This was submitted to three suppliers for quotations to be received by 22nd December 2022 and following assessment of the bids received, Mazars were appointed to undertake the investigation on 4th January 2023 with a requirement for completion and final reporting to WMCA Board in February 2023.

2.4 Following the completion of obligatory Conflict of Interest checks, a contract was formally awarded and signed on 10th January 2023, with the immediate start of the investigation, and engagement with all relevant parties.

3. Financial Implications

Not applicable

4. Legal Implications

Not applicable

5. Equalities Implications

Not applicable.

6. Inclusive Growth Implications

Not applicable.

7. Geographical Area of Report’s Implications

Not applicable.

8. Other Implications

Not applicable.

9. Schedule of Background Papers

Appendix 1 – Investigation Terms of Reference

Investigation into Metro Financial breach

Draft scope

Background

Delivery of the Wolverhampton Interchange scheme to extend the Midland Metro light railway system was commissioned at a cost of £33.3m. Funding for this project was provided through a government grant with additional contributions being made by WMCA and City of Wolverhampton Council.

Programme management and delivery of the Wolverhampton City Centre Metro Extension is the responsibility of Midland Metro Alliance (MMA), a consortium of design experts and rail construction specialists, established by, and working in conjunction with WMCA to deliver the infrastructure on its behalf, with an expected completion and opening date of Spring 2023.

The extension forms part of the wider Wolverhampton interchange programme which involves multiple interfaces and dependencies with other projects including the delivery of a remodelled Wolverhampton rail station and the regeneration of, and public realm improvements being delivered in conjunction with the City of Wolverhampton Council.

Financial monitoring by WMCA has recently identified that the costs of work instructed to date have significantly exceeded the budget provision, including contingency allowances, without the required approvals from WMCA to the sum of c.£9.6m, and has resulted in a breach of the organisation’s financial regulations.

Purpose

An urgent and independent investigation is required to review the cost controls, financial management and programme management controls currently in place for this project, to identify the systems in place that have allowed cost escalation and overspend to arise without appropriate due diligence having taken place, including compliance of contractual obligations and/or WMCA’s financial regulations.

Scope

To review the programme management and financial management control measures in place for the Wolverhampton City Centre Metro Extension project to determine how the value of works have exceeded the project budget in advance of the appropriate governance arrangements being complied with.

The review should include, but not be limited to:

- A review of delegated authorities including a review of if, and how these levels were complied with by all parties including commercial partners.
- The adequacy of risk management arrangements and the effectiveness of those arrangements to raise early warnings around project cost.

- Compliance with corporate governance processes and the alignment back to original expectations including Change Control arrangements.
- Adequacy of budgetary control and associated management information available to provide senior officers and decision makers with project oversight and visibility of early warnings.

Requirements

WMCA is seeking to appoint an independent consultant with a background in Programme and Financial management to complete an urgent review as detailed above and invite you to quote for this assignment.

Please note, this is a time sensitive issue due to political concerns having been raised and as a result, the review must be completed with a need for interim findings to be presented, in the strictest confidence, to relevant committees on 13th January, and 24th January with completion required by 3rd February 2023.

In submitting a quotation, please provide a brief summary with details of:

- The approach to be taken in completing the assignment
- The number of days required for completion.
- Overall cost for the assignment.
- Confirmation of your immediate availability to undertake the assignment and meet the reporting dates as provided above.

Please submit your quotation by 17:00 hours, 22nd December 2022.

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

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of the Local Government Act 1972.

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