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Audit, Risk & Assurance Committee

Date: Monday 4 December 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 Karen Ashley	Worcestershire Non-Constituent Authorities
Councillor Nick Bardsley	Shropshire Council Non- Constituent Authorities
Councillor Richard Baxter-Payne	Warwickshire Non-Constituent Authorities
Councillor Dave Borley	Dudley Metropolitan Council
Councillor Jaspreet Jaspal	City of Wolverhampton Council
Councillor Brigid Jones	Birmingham City Council
Councillor Leslie Kaye	Solihull Metropolitan Borough Council
Councillor Ram Lakha OBE	Coventry City Council
Councillor Rose Martin	Walsall Metropolitan Borough Council
Councillor Liam Preece	Sandwell Metropolitan Borough Council
Lisa Ritchie	Business Representative

The quorum for this meeting shall be two thirds of its membership.

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

Contact Wendy Slater, Senior Governance Services Officer
Telephone 07557 831344
Email wendy.slater@wmca.org.uk

AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
1.	Apologies for Absence (if any)	Chair	None	10:00
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	10:02
3.	Chair's Remarks (if any)	Chair	None	10:03
4.	Minutes - 4 October 2023	Chair	1 - 8	10:05
5.	Action List	Chair	9 - 10	10:10
6.	Annual Accounts 2022/ 23 for West Midlands Combined Authority (a) Annual Accounts for 2022/23 for the WMCA (covering report) (b) WMCA Financial Report (c) Audit Findings (d) Auditor's Annual Report	Linda Horne /Grant Thornton	11 - 206	10:15
7.	Treasury Management Mid-Year Report 2023/24	Mark Finnegan	207 - 222	10:55
8.	Internal Audit Report	Loraine Quibell	223 - 240	11:10
9.	Financial Due Diligence Checks on Suppliers in response to Rail Package Package 1	Linda Horne	241 - 246	11:25
10.	Assurance Performance Report -July to September 2023	Joti Sharma	247 - 256	11:35
11.	Forward Plan	Chair	257 - 258	11:45
12.	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	Chair	None	

	person (including the authority holding that information)			
13.	Update on Whistleblowing Claims	Loraine Quibell	259 - 262	11:50
Date of Next Meeting- 30 January 2024				

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Audit, Risk & Assurance Committee

Wednesday 4 October 2023 at 10.00 am

Minutes

Present

Mark Smith (Chair)	
Councillor Nick Bardsley	Shropshire Council Non- Constituent Authorities
Councillor Dave Borley	Dudley Metropolitan Council
Councillor Jaspreet Jaspal	City of Wolverhampton Council
Councillor Brigid Jones	Birmingham City Council
Councillor Leslie Kaye	Solihull Metropolitan Borough Council
Councillor Ram Lakha OBE	Coventry City Council
Councillor Rose Martin	Walsall Metropolitan Borough Council

In Attendance via MS Teams

Councillor Richard Baxter-Payne	Warwickshire Non-Constituent Authorities
Lisa Ritchie	Business Representative

Item No.	**Title**
18.	**Apologies for Absence** Apologies for absence were received from Councillors Ashley and Preece.
19.	**Chair's Remarks** The Chair reported that he continues to liaise with Councillor Cathy Bayton, Chair of the WMCA's Overview and Scrutiny Committee on issues of common interest. He advised that regular liaison meetings will also include the Chair of Transport Delivery Overview and Scrutiny Committee, Councillor John McNicholas, going forward.
20.	**Minutes - 19 July 2023** The minutes of the meeting held on 19 July 2023 were agreed as a true record.
21.	**Matters Arising** *6. Matters Arising – Minute no.58 Internal Audit- March 2023* The Head of Financial Management, Louise Cowen, reported that the issue of debit balances of £8.8m on credit ledgers identified as part of the Key Financial Systems audit had been identified and addressed.

6. Matters Arising- Minute no.61 WMCA External Audit Plan for 2022/23
Grant Patterson. Grant Thornton reported that he hoped to advise of the name of the new Lead Auditor following a meeting this week and would contact the Head of Financial Management, Louise Cowen to arrange meetings with the Finance colleagues and the Chair of ARAC.

22. Action List
The Chair reported that most items on the action list would be dealt with at today's meeting.

Resolved that: the action list be noted.

23. West Midlands Combined Authority Audit Progress Report and Sector Update
The committee considered a report of the Executive Director of Finance and Business Hub that attached as an appendix a report by Grant Thornton that provided an update on progress in delivering their responsibilities as WMCA external auditors for the prior year 2021/22 and the current year audit 2022/23.

The Head of Financial Management, Louise Cowen, introduced the report and with regards to the 2022/23 audit, advised that the audit process had started on 3 July this year as the Annual Accounts were originally scheduled to be approved at this meeting. However, due to the increased complexity of the WMCA's accounts and other commitments by the external auditors, the process for the accounts approval has been delayed.

Further to the commentary provided by the Head of Financial Management, Grant Patterson, Grant Thornton, reported that the complexity of the WMCA's accounts had resulted in additional time needed to obtain the appropriate level of assurance. He advised that a timeline for the approval of the Annual Accounts would be discussed with Linda Horne, Executive Director of Finance and Business Hub next week and he hoped the process would be completed by the end of November.

In relation to the closure of 2021/22 Annual Accounts, Grant Patterson, Grant Thornton reported that the audit would shortly be concluded as the audit data received supports the outstanding issue related to the West Midlands Pension Fund.

The Chair reported that it would be good to resolve the Pension Fund liability issue as soon as possible.

Resolved that: the report presented by Grant Thornton be noted.

24. WMCA Loan to Woking Borough Council - Briefing Note
The committee considered a briefing note of the Executive Director of Finance and Business Hub that outlined the WMCA's loan to Woking

Borough Council. The note was submitted for information following a request from the Chair at the previous meeting.

The Executive Director of Finance and Business Hub, Linda Horne, reported that the briefing note had initially been provided for the WMCA's Overview & Scrutiny Committee who wanted to be advised of local authority transactions following Woking Borough Council issuing a Section 114 Notice.

The Executive Director of Finance and Business Hub assured the committee that all transactions including loans undertaken by the WMCA are in accordance with the WMCA's Treasury Management Strategy and are not at risk as local authorities continue to trade with written assurance. She advised that in the light of the press coverage of the loan to Woking BC and potential reputational risk to the WMCA in the future, the decision had been taken to not forward deal by more than one month.

The Chair reported that he trusted the Lead Treasury Accountant would update the WMCA's Treasury Management Policy to reflect the change in operating practice. He asked that details be included in the Treasury Management report to the next meeting and reported that moving forward, it would be helpful to include details of forward commitments as an appendix in Treasury Management reports.

Resolved that: the briefing be noted.

25. WMCA Strategic Risk Update

The committee considered a report of the Executive Director of Finance & Business Hub that provided an update on the Strategic Risk Register.

The Risk Manager, Peter Astrella, outlined the key messages contained in the risk update including issues and three new strategic risks.

Further to enquiry from Councillor Jones (Birmingham) regarding the Single Settlement negotiation and ratification of the Trailblazing Devolution Deal by constituent authorities that were identified as new strategic risks, the Executive Director of Finance & Business Hub, Linda Horne provided the committee with an update on the timescales and process for the ratification of the TDD and reported that the Single Settlement would be negotiated with Government over the next 18 months.

In relation to an enquiry from the Chair regarding the issue of Buckingham Group Contracting Limited entering into administration and whether the WMCA has reviewed the due diligence around the award of the contract (design and build for Darlaston and Willenhall Rail Stations) to the company, the Risk Manager reported that he would ask TfWM colleagues to reflect on lessons learnt. The Executive Director of Finance & Business Hub added that she would report back on the matter to this committee and the WMCA Board to provide reassurance.

Resolved that:

1. The key messages in the Strategic Risk Update be noted and

2. The revisions/ planned revisions to the Strategic Risk Register be noted.

26. Update on Internal Audit Resourcing

The Chair reported that Peter Farrow was no longer leading on Internal Audit as the WMCA had decided to bring the Internal Audit function in-house.
The Chair asked that thanks be recorded to Peter Farrow and colleagues at Wolverhampton for resourcing internal audit since the WMCA was established.

The Head of Corporate Support & Governance, Julia Cleary, reported that job advertisements had been placed to recruit a Head of Internal Audit and Information Governance, a Senior Auditor and two Internal Auditors along with a Security and GDPR Officer and an Information Governance Officer to support and strengthen this area of the business.

The Internal Audit Liaison Officer, Loraine Quibell, reported on the interim audit arrangements that are in place until the new structure is implemented.

The Chair asked to receive a structure chart covering the new audit posts for the next meeting.

Resolved that: the update be noted.

27. Internal Audit Update

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

The Internal Audit Liaison Officer, Loraine Quibell, advised the committee that since the last meeting, the Head of Audit, Peter Farrow, had confirmed there was no change to the provisional audit opinion (reasonable assurance) for the Annual Internal Audit report following the completion of the outstanding audits.

In relation to comments made by Councillor Kaye (Solihull) at the last meeting regarding changing the categories of audit opinion, the Internal Audit Liaison Officer, Loraine Quibell reported that this issue would be reviewed when the new Internal Audit Team is in place.

It was noted that three audits had been completed since the last meeting that were appended to the report; the adult education budget and external funding arrangements had both been awarded a satisfactory level of assurance and the gifts and hospitality arrangements audit had been given a limited level of assurance.

The Interim Director for Employment, Skills, Health & Communities, Clare Hatton was in attendance to answer any questions relating to the adult education budget audit. It was noted that the recommendations contained within the report have been implemented and the concerns identified addressed.

Resolved that:

1. The contents of Internal Audit Update report be noted and
2. The confirmation of the 2022/23 Annual Audit opinion be noted.

28. Key Financial Systems Audit: Accounts Payable Update

The committee considered a report of the Executive Director of Finance & Business Hub that provided an update on progress in implementing the Accounts payable audit recommendations that were set out in the Key Financial Systems audit report for 2022/23.

The Head of Financial Management, Louise Cowen, advised the committee that as part of the WMCA Key Financial Systems Internal Audit report this year, Accounts Payable had received an overall audit opinion of 'Satisfactory' whilst the other areas audited, Accounts Receivable, Budgetary Control, General Ledger and Treasury Management had all received an audit opinion of 'Substantial'. The report submitted therefore set out progress to date in implementing the audit recommendations for Accounts Payable as requested by the Chair at a previous meeting.

The Head of Financial Management outlined the processes that have been put in place following the Internal Audit report and advised that most actions identified in the report would be completed by the end of December and would continue to be monitored by the team for an improved and effective Accounts Payable control environment.

Resolved that:

The progress update set out in the report on implementing the Accounts Payable recommendations in the Key Financial Systems audit report for 2022/23 be noted.

29. Housing Investigation - Action Plan Update

The committee considered a report of the Interim Director of Housing, Property and Regeneration that provided an update on the Action Plan agreed by this committee in January 2023 in response to the recommendations from an independent investigation carried out by CBRE.

The Head of Property & Strategic Assets, Nigel Ford was in attendance to present the report and respond to any questions.

It was noted that no further acquisitions for onward disposal or disposals completed have occurred since the Action Plan was agreed. The recommendations contained within the Action Plan would form part of a Single Property & Estates Strategy that was due for completion later this year.

The Chair asked that the committee be advised at an appropriate time in the future, when any assets have been acquired or disposed of.

Resolved that:

1. Progress on the Action Plan presented and agreed by the committee in January 2023 be noted and
2. The need to embed policies as part of the Action Plan for the Single Property & Estates Strategy to be approved later this year be recognised.

30. Single Assurance Framework Assurance Performance Report April to June 2023

The committee considered a report of the Executive Director of Finance and Business Hub that provides a quarterly update on progress of WMCA projects that have been assured through the Single Assurance Framework.
The report outlined performance on business case assessments, health checks, risk & appraisals and change requests during the period April to June 2023.

The Head of Programme Assurance & Appraisal, Joti Sharma, outlined the report and referred to Section 4 of the report that identified key emerging assurance themes during the reporting period.

Resolved that:

The contents of the report be noted.

31. Single Assurance Framework Annual Refresh 2023

The committee considered a report of the Executive Director of Finance and Business Hub that provided background information on the requirement for the Single Assurance Framework (SAF) update and the changes made as part of this year's annual review and refresh.

A copy of the Single Assurance Framework was attached to the report

It was noted that the WMCA is required to take an annual refresh of its Single Assurance Framework in accordance with the Department for Levelling Up, Housing & Communities document, 'The National Local Growth Framework'

The Head of Programme Assurance & Appraisal, Joti Sharma outlined the report.

Resolved that:

1. The Single Assurance updates be noted and
2. The Single Assurance Framework attached to the report be endorsed to progress to the WMCA Board for approval.

32. Summary of WMCA Arm's length companies

The committee considered a report of the Director of Law & Governance that informed them of the companies in which the WMCA has an interest having previously requested the information.

The Director of Law & Governance, Helen Edwards, outlined the report and advised the committee that work is ongoing in reviewing and monitoring the companies established by the WMCA/it is involved with.

The Chair reported that he was unable to gauge the size of the companies, company turnover, the number of people employed and the money going through West Midlands Development Capital from the report submitted.

The Director of Law & Governance, Helen Edwards, undertook to provide more details in the next report to the committee.

The Executive Director of Finance & Business Hub, Linda Horne, advised that Grant Thornton has visibility of the WMCA's companies, and the issues identified.

Grant Patterson, Grant Thornton confirmed that there were only 2 companies of material interest, these were Midland Metro Limited and WM5G.

Councillor Jones (Birmingham) considered it would be useful for the committee to receive a quarterly or half-year update on WMCA's companies that could provide a 'temperature check' for the committee.

The Director of Law & Governance, Helen Edwards, assured the committee that the WMCA closely monitors the companies in which it has an interest.

The Chair reported that he would like the committee to receive a regular report even if it is to note there has been no change to the current position.

Resolved that:

1. The information provided in the report be noted;
2. The Executive Board is reviewing the monitoring arrangements for each of the companies be noted and
3. The monitoring arrangements proposed be reported to a future committee be agreed.

33. Forward Plan

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

Resolved that: the report be noted.

34. Monday 4 December 2023 at 10.00am

The meeting ended at 12.05 pm.

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<u>**Audit, Risk and Assurance Committee Action List 2023-24**</u>

Date of meeting	Minute No./ Item	Action	Owner	Scheduled Completion Date
18.04.23	61. WMCA External Audit Plan 2022/23	Grant Patterson to arrange meetings with the ARAC Chair and Executive Director of Finance & Business Hub and the new Lead Auditor.	Louise Cowen	
04.10.23	24. WMCA Loan to Woking BC Briefing	Treasury Management Policy to reflect change in operating practice, details to be included in Dec TM report. Forward Commitments to appended to future TM reports.	Linda Horne/Mark Finnegan	04.12.23
04.10.23	25. WMCA Strategic Risk Update	Lesson learnt/due diligence review of Buckingham Group Contracting Limited be reported back to a future meeting.	Linda Horne	04.12.23
04.10.23	26. Update on Internal Audit Resourcing	Structure chart covering new posts to be sent to the Chair for the next meeting.	Julia Cleary	

04.10.23	32.Summary of WMCA Arm's Length Companies	Regular update report to be submitted (quarterly or half yearly suggested)	Helen Edwards	11.03.24

Audit, Risk & Assurance Committee

Date	4 December 2023
Report title	Annual Accounts 2022/23 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 for 2022/23.
(2) Note the Audit Findings Report for 2022/23 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 Hub as set out in Appendix G 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 2022/23 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.
(7) Note the Auditor's Annual Report on West Midlands Combined Authority for the year ended 31 March 2023.
(8) Approve publication of the Auditor's Annual Report on the Combined Authority's website.

1.0 Purpose

1.1 This report has been prepared to enable the Audit, Risk & Assurance Committee to approve the annual accounts for West Midlands Combined Authority (WMCA) for the financial year ended 31 March 2023. WMCA's draft Audit Findings Report is also presented (Appendix 1) along with WMCA's Auditor's Draft Annual Report (AAR) for the year ended 31 March 2023, which summarises the key findings arising from the work carried out by the external audit team at Grant Thornton is also presented (Appendix 2). The AAR provides a commentary on the results of Grant Thornton's work to the Authority and to external stakeholders.

2.0 Background

2.1 The draft accounts for 2022/23 were shared with members of the committee when the audit process commenced on 3 July 2023.

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 WMCA's activities for the 2022/23 financial year.

2.3 The majority of the audit process has now been completed without any significant issues to report and the following are attached for review and approval:

- i) West Midlands Combined Authority financial report 2022/23 (Appendix 1)
- ii) Grant Thornton Audit Findings Report (including Letter of Representation - Appendix G) (Appendix 2)
- iii) Grant Thornton Auditor's Draft Annual Report (Appendix 3)

3.0 Annual Accounts

3.1 The West Midlands Combined Authority Board has received regular financial monitoring updates throughout 2022/23. The final outturn position for 2022/23 was reported to West Midlands Combined Authority Board on 9 June 2023.

3.2 The audit process is now substantially complete, and Grant Thornton will present their findings (Appendix 1) 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 2022/23 to be delegated to the Chair of Audit, Risk and Assurance Committee.

3.3 In relation to the commentary in the Audit Findings Report around valuation of WMCA's pension fund (page 11), work in relation to the accounting treatment of the pension fund asset remains ongoing. This is the first time that some authorities have found themselves with a surplus on the pension fund following the actuarial valuation. Based on early work, it is now considered unlikely that WMCA will be required to recognise a net pension asset on its balance sheet as at 31 March 2023.

4.0 The Auditor's Annual Report

4.1 As part of their obligations to comply with the National Audit Office's Code of Audit Practice, Grant Thornton are required to report annually on their audit findings in respect of WMCA's statutory accounts as well as their assessment of the Authority's overall value for money arrangements. The full Auditor's Draft Annual Report is set out in Appendix 3.

4.2 No significant weaknesses have been identified and eight improvement recommendations have been made. The number of recommendations has increased year on year reflecting that the size and complexity of the Authority continues to grow, as government channels more funding through the Authority.

4.3 The National Audit Office's guidance requires an assessment under three areas:

(1) Financial sustainability;
(2) Governance; and
(3) Improving economy, efficiency and effectiveness.

4.4 In respect of financial sustainability, the report notes that the Combined Authority exhibited strong financial performance in 2022/23, finishing the year with a positive £2.8m variance to budget. The Combined Authority is forecasting a break-even year-end position for 2023/24. A special feature of the Trailblazer Deeper Devolution Deal includes a Single Settlement agreement, where for the first time, a region will be treated as if it were a government department, enabling the region to prioritise, target and decide how funding is spent in key areas. The Authority was able to replenish reserves during 2022/23 through transfers of surplus to reserves, although the reserves level is low compared to net revenue spend and Grant Thornton have raised a recommendation in this regard.

4.5 In respect of governance arrangements, the report notes that during 2022/23, the Combined Authority had adequate risk management arrangements in place, guided by the Strategic Risk Management framework. Grant Thornton have raised an improvement recommendation regarding the presentation of the strategic risk register.

4,6 The report notes that the Combined Authority has an adequate and effective internal audit function to provide opinions on the adequacy and effectiveness of the Authority's governance, risk management and control processes. Grant Thornton have raised a recommendation regarding the need to update the Code of Conduct.

4.7 The report also notes that the Audit, Risk and Assurance Committee provides an independent high-level focus on the adequacy of governance, risk and control arrangements. Grant Thornton have raised recommendations regarding the membership of ARAC.

4.8 In respect of improving economy, efficiency and effectiveness, the report notes that the Combined Authority has delivered several successes in 2022/23, most notably its contribution to the delivery of the Commonwealth Games. During the 2022/23 financial year, the performance monitoring system has been updated to better connect reporting of performance and finances. The Authority's Plan for Growth, Investment Prospectus, Net Zero Five Year Plan and the new Local Transport Plan demonstrate its readiness to drive change. The Combined Authority does not have a formal procurement strategy in place and there is a lack of reporting of procurement performance to committee level, both of which Grant Thornton have raised recommendations in relation to.

4.9 All improvement recommendations have been accepted and the Combined Authority's responses are noted in the report.

4.10 In respect of their opinion on the financial statements, the report notes that Grant Thornton intend to issue an unqualified opinion on the Authority's financial statements following the meeting of the Audit, Risk and Assurance Committee.

4.11 The Finance team and Grant Thornton are working together to ensure that the audit process for the year ended 31 March 2024 will progress at a faster pace enabling the audited Statement of Accounts to be published in time for the statutory publication deadline of 30 September 2024.

4.12 It is pleasing to note that the report highlights no adjustments that impact the Authority's reported financial position are required, however, it is likely that an adjustment will be required to the balance sheet, in respect of the treatment of the pension asset as guidance on the application of accounting standard IFRIC 14 to local government pension schemes clarifies.

4.13 Following consideration by the Committee, the Auditor's Annual Report for the year ended 31 March 2023 will be published on West Midlands Combined Authority's website.

5.0 Financial Implications

5.1 The financial implications are covered within the body of this report and the attached annual accounts reflect the results for the year ended 31 March 2023.

6.0 Legal Implications

6.1 Production of these accounts is a statutory requirement.

7.0 Equalities Implications

7.1 Alternative formats for these accounts are available upon request.

8.0 Inclusive Growth Implications

8.1 Not applicable.

9.0 Geographical Area of Report's Implications

9.1 Not applicable.

10.0 Other Implications

10.1 Not applicable.

11.0 Schedule of background papers

11.1 Appendix 1 - West Midlands Combined Authority Financial Report 2022/23
11.2 Appendix 2 - Grant Thornton The Audit Findings Report for West Midlands Combined Authority - Year ended 31 March 2023
11.3 Appendix 3 – Grant Thornton Auditor's Draft Annual Report on West Midlands Combined Authority 2022/23

Statement of Accounts

For the year ended 31 March 2023

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Contents

Welcome to the West Midlands Combined Authority's ('the Authority') Statement of Accounts for the financial year ended 31 March 2023. 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 (WMCA).

The Statement of Accounts for the year ended 31 March 2023 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 2022/23, 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.

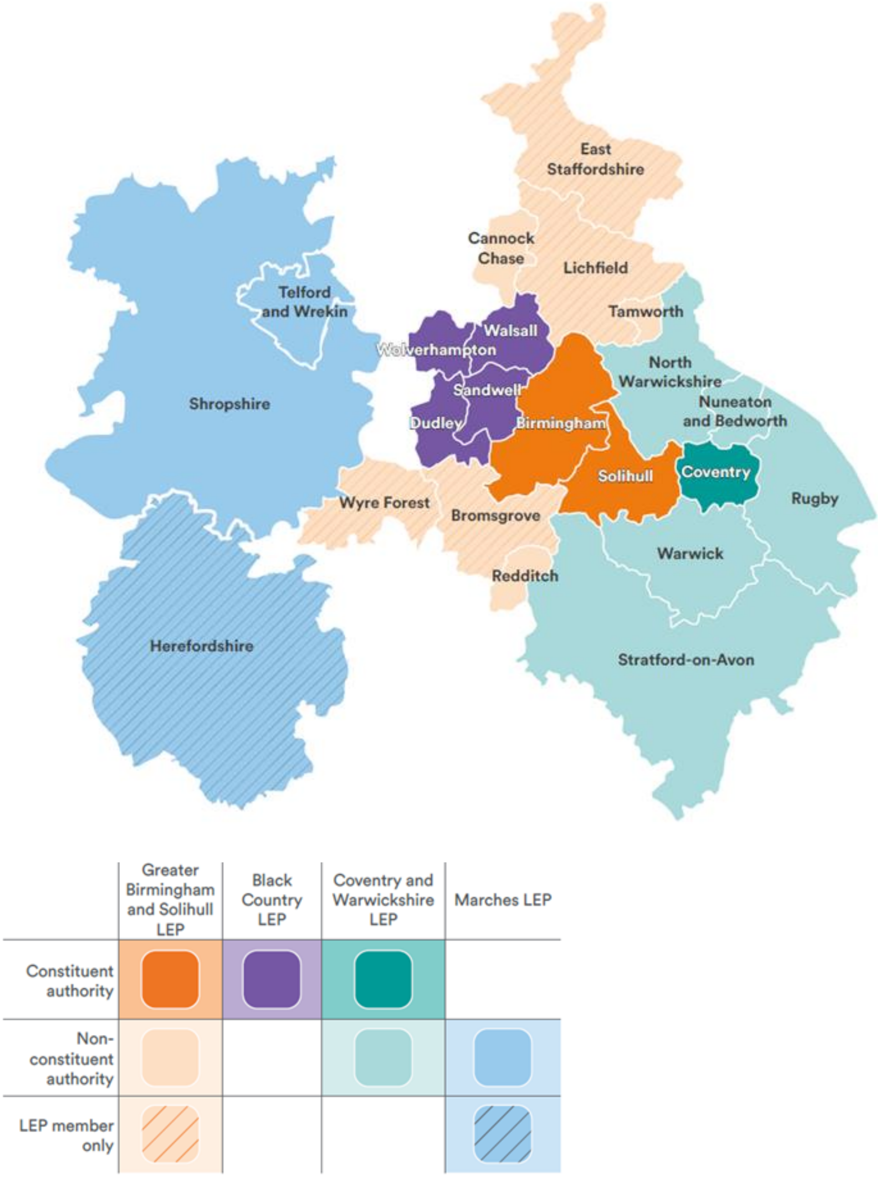
The Narrative Report has been prepared to outline the activities for the year 2022/23, providing both a guide to the Authority's accounts and to its achievements in delivering inclusive economic growth through transport and economic development as well as setting out the economy, efficiency and effectiveness in its use of resources in doing so.

1. 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 the West Midlands Police and Crime Commissioner, the West Midlands Fire and Rescue Authority and the Local Enterprise Partnerships (LEPs), though from 1st April 2023 two of the LEPs are now integrated into the WMCA. 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



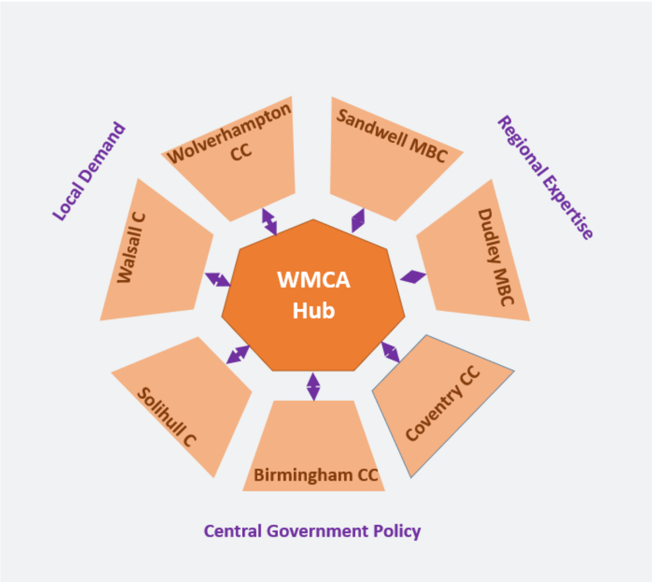
The Authority is now the Local Transport Authority for the West Midlands and has powers to exercise economic development and regeneration functions in conjunction with its seven constituent local authorities:

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 included 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 included 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 28 to 41.

On 31st March 2022 the Departments for Levelling Up, Housing and Communities (DLUHC) and Business, Energy, and Industrial Strategy (BEIS) issued a joint letter and accompanying guidance to the Chairs of the LEPs in England and to the Mayors of Combined Authorities setting out their proposals for the roles and functions of LEPs to be integrated into local democratic institutions. WMCA is responsible for directly taking on some LEP functions and indirectly ensuring that there are arrangements for other functions to be discharged. During 2022/23 work has been underway to transfer and embed the three LEP Functions into WMCA's core activities.

- Both Black Country LEP and Growth Hub closed as of 31 March 2023.
- Coventry & Warwickshire LEP closed on 31 March 2023. The Coventry & Warwickshire Growth Hub will continue to provide support to businesses in Coventry and Warwickshire.
- Greater Birmingham and Solihull LEP and Growth Hub will continue to deliver European funded programmes until these conclude in 2024.

From 1st April 2023, WMCA has now taken over responsibility for Business Support and Careers Education Support through the creation of a Growth Hub and Careers Hub.



Business Growth West Midlands and West Midlands Careers Hub will be delivered through a "Hub and Spoke" Model.

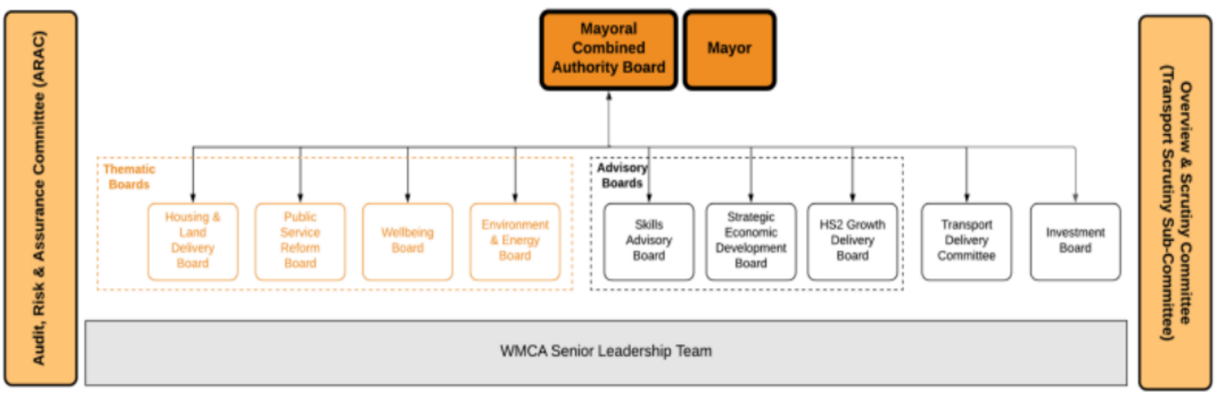
WMCA "hub" – provides core activities such as policy development, marketing, commissioning and monitoring and evaluation.

Links with other business support activity and work with schools, colleges and employers.

"Spoke" teams within constituent Local Authorities, that will lead on delivery.

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 Executive 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 1,026 people and the Authority employed 757 people as at 31 March 2023. Further analysis can be found in Table 1 on page 8.

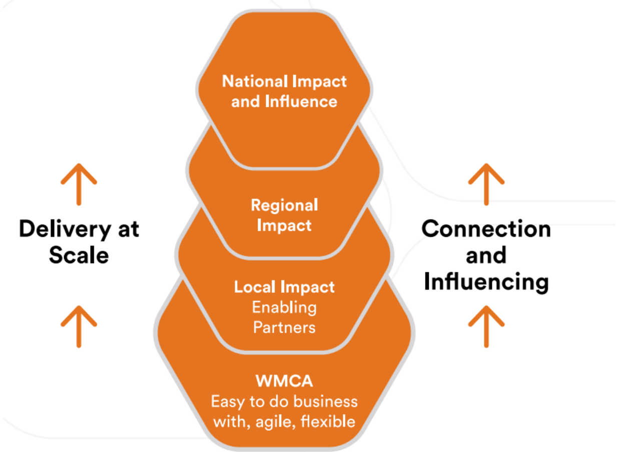
WMCA's vision is to achieve 'A more prosperous and better connected West Midlands which is fairer, greener and healthier'.

We add value for the region by working only where we're uniquely best placed:

- Connecting Others
- Action with Regional Scale Impact

WMCA statutory functions are:

- provision of regional adult education
- delivery of free English national concession transport for older and disabled citizens on bus
- production of a regional economic strategy and local transport plan



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. As above, 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 corporate 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, and set out how we'll deliver the region's priorities.

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 pages 31 to 32.

Regional Economic Context

The biggest challenges to the West Midlands economy in the financial year 2022/23 have been:

- The cost-of-living crisis has put pressure on household incomes and made it more difficult for people to spend money. During 2022/23, research by The Centre for Cities found inflation rates in urban areas of the West Midlands were rising significantly faster than in the South. Birmingham and Coventry are the hardest hit in the West Midlands, with an inflation rate of 10.5%, compared with London and Cambridge at 8.8% each. This has made workers in the West Midlands £126 a month poorer on average, according to the report, compared with workers in the South who have lost around £103 a month.

  In March 2023, one of WMCA's constituent local authorities was named as the second-poorest area in the whole country. Out of 333 local authorities, the Black Country borough of Sandwell was ranked second-lowest on a new 'cost-of-living vulnerability index' which showed there was only one place in the country where locals were expected to struggle more with daily life. Residents in Sandwell are generally worse off than in other parts of England, leaving them struggling to heat their homes and pay bills during the cost-of-living crisis.

- Rising interest rates since December 2021 has seen the Bank rate at its highest level for almost 15 years, rising consistently in response to the soaring cost of living., Raising interest rates helps to control inflation by making it more expensive to borrow money, encouraging people to borrow less and spend less, and to save more. Just under a third of households have a mortgage, according to the Government's English Housing Survey and after a period of ultra-low rates, many homeowners are now facing the likelihood of much more expensive monthly repayments. Bank of England interest rates also influence the amount charged on things such as credit cards, bank loans and car loans, and lenders could decide to put prices up further, if they expect higher interest rates in the future.

- Producer output (factory gate) prices rose by 12.1% in the 12 months to February 2023. This erodes incomes and leads to a reduction in real living standards. In the latter half of the financial year the rate of growth in prices began to fall. The largest upward contribution to the annual inflation rate came from input of other parts and equipment, which rose 9% in the 12 months to February 2023. The second largest contributor to the annual rate came from metals and non-metallic minerals, which saw an increase of 13.4% over the same period, mainly driven by globally high steel prices. Due to the large manufacturing base - and to a lesser extent construction - in the West Midlands, these two inputs have a large impact regionally.

- Increased energy costs due to several factors which put a strain on businesses making it more difficult to operate and diverting profits from investment. The ending of the Energy Bill Relief Scheme in March 2023 could exacerbate the impact of energy costs on business profitability and investment, although big drops in the price of crude oil and energy should mitigate any potential impact.

- Supply chain disruption caused by continued implications of the COVID-19 pandemic, global economic recovery from the recession and the end of lockdowns (particularly in China), and by the war in Ukraine. Due to the reliance on imported goods and components, this has had a negative impact on the West Midlands.

- The UK's exit from the European Union, which created uncertainty for businesses and made it more difficult for them to trade with the EU.

These challenges have had a significant impact on the West Midlands economy, leading to a slowdown in growth and rising unemployment. Gross Value Added in the WMCA area has shrunk by 4.7% since 2019, compared with a 4.3% reduction across the UK. Unemployment in the WMCA area is increasing and now stands at 6.7%, compared with 3.7% in the UK. The region is also facing a skills shortage, which is making it difficult for businesses to fill vacancies, although the number of vacancies fell steadily across the financial year.

In the West Midlands, the number of people on Universal Credit (UC) increased in almost every month during 2022/23 in every local authority area, though not at the same high rates as the previous year. The total people on UC in March 2023 stood at 366,818.

Business confidence in the West Midlands region, according to the Institute of Chartered Accountants in England and Wales (ICAEW) business confidence monitor, was the highest in the country in Quarter 1 2022. This dropped significantly over the rest of 2022, but in line with the rest of the country. By Quarter 1 2023 confidence returned to positive territory, though below the UK average.

2. Governance

Governance arrangements during the year are set out in the Annual Governance Statement that can be found on pages 28 to 41.

3. 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 2023) and established full time equivalent (FTE) posts.

Table 1: WMCA, MML & WM5G Staffing Analysis — March 2023

No.	Headcount	FTEs
TfWM	426	402.0
Enabling Services	205	200.6
Portfolio Services	145	143.8
Mayor’s Office	12	11.6
WMCA Total	788	758.1
Midland Metro Limited	251	240.7
WM5G Limited	18	17.2
Group Total	1,057	1,016.0

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.

The graphics below show how far we have come in a number of the key protected characteristics. We have a slightly younger workforce on average compared to local government figures (42 compared with 45) and have an even gender split compared with economically active population figures for the West Midlands. Our ethnicity and disability numbers are slightly lower than the regional comparisons. Equality, Diversity and Inclusion are hugely important to us and we want our people to represent the communities in which we work. Our People and Culture strategy being delivered in 2023 will build upon that.

4. Operational performance

Performance summary of the 2022/23 High Level Deliverables

The WMCA is committed to delivering positive change across the region through our shared vision of a fairer, greener, healthier and better connected West Midlands. This is evidenced by our High Level Deliverables (HLDs), which are output measures that demonstrate to our stakeholders how we are progressing and what is being delivered against our Annual Business Plan. In February 2022 the WMCA Board approved 136 HLDs for the 2022/23 financial year and this section shows how we have performed and our key achievements.

At year end, 114 of the 136 HLDs have either been completed or are on target, which shows 84% of HLDs have remained within acceptable tolerance levels. This is a great achievement especially when considering the cost of living crisis, volatile market conditions and the reprioritisation of resources for the Deeper Devolution Deal. The remaining 22 HLDs that were not fully delivered have been absorbed into 2023/24 HLDs and will be monitored over the following year, where they are expected to be back on track.

2022/23 key achievements:

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

Housing, Property and Regeneration

- Launched a landmark strategic partnership with Legal & General, with the pension fund committing £4bn over the next 7 years and delivered an extensive engagement programme with new and existing investor, developer and public sector partners, following the launch of the West Midlands Investment Prospectus in March 2022 to augment and expand a strong regional development pipeline.
- Negotiated a breakthrough housing and land deal worth up to £500m with HM Government, seeking ambitious changes to WMCA's devolved powers and resources, strengthening the regional influence and impact and creating opportunities for future success, driving local and regional priorities in the West Midlands.
- Led on the delivery of WMCA's cross-cutting Ways of Working programme, providing a flexible and hybrid working model that puts staff at the heart of WMCA HQ.

Economic Delivery, Skills and Communities

- Launched our Plan for Growth, an ambitious strategy for boosting growth, spreading opportunity and jobs, to help level-up the region.
- Exceeded target of securing £40m of apprenticeship levy transfer funds, ahead of schedule. We have used these funds to support more than 3,000 apprentices to begin a new career and 1,000 Small and Medium Size Enterprises (SMEs) to develop talent within their business.
- Through our skills bootcamps we supported more than 2,000 adults who were unemployed or looking to upskill to get a better paid job. We also secured additional funding for 4,000 more bootcamp places by 2024.

Finance and Business Hub

- Invested heavily in our people through expanding our teams – HR & Procurement in particular – and growing our expertise in Risk, Insurance, Assurance and Investments.
- Adopted the Business Partnering approach giving greater support to each Directorate to support delivery of strategic Aims and Objectives.
- Delivered new technology and systems – such as our best in class recruitment platform and Business World, giving us a single point of truth and enabling people to make more informed data driven, evidence-based decisions.

Strategy, Integration and Net Zero

- The Strategy, Integration and Net Zero Directorate was newly formed in 2022 to bring fresh impetus to strategy development and co-ordination across the combined authority and closer collaboration with regional partners. Over the past year these efforts have focused on delivering a 'trailblazing' deeper devolution deal – one of only two such pioneering deals in England.
- This third devolution deal for the region was initiated through the government's Levelling Up White Paper, which aligns well with our existing approach to inclusive growth which is guiding a fresh approach to measuring regional outcomes. We have also brought in a new, cross-cutting approach to research and intelligence across the combined authority.
- The Young Combined Authority, Faith Strategic Partnership Group and Homelessness Taskforce have continued to challenge us to develop more systemic approaches to inclusion and equality in the region, and our new Race Equalities Taskforce has delivered its initial strategy and action plan.
- The WMCA work on energy and the environment has grown rapidly, drawing in new resources and capacity as we scale-up efforts for the region to be carbon zero by 2041. Our retrofit SMART Hub is now delivering several retrofit projects including a pipeline of Net Zero Neighbourhoods; we launched an Industrial Energy Taskforce to support energy intensive businesses through the energy crisis; and our environment team continue to drive programmes on tree planting, climate adaptation, the circular economy and carbon literacy. The WMCA was

awarded an A-grade by the Carbon Disclosure Project, putting it in the top 12% of global city-regions.

Transport for West Midlands (TfWM)

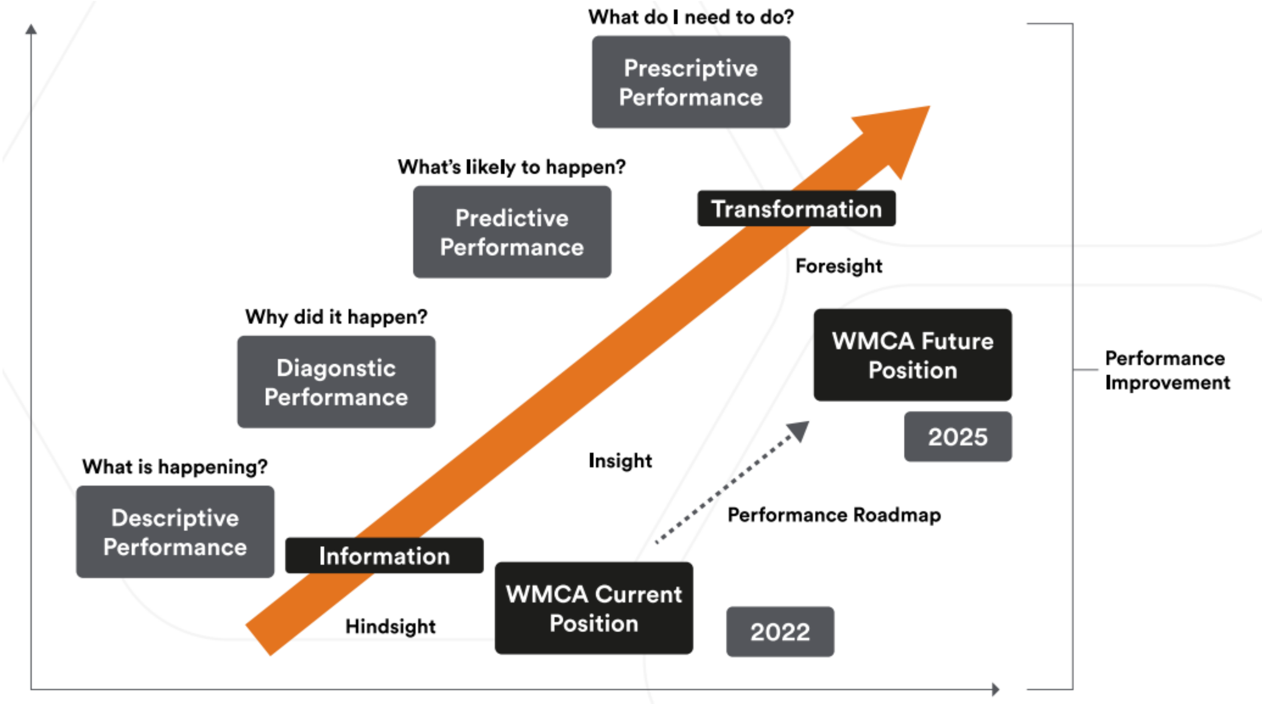
- Planned and delivered an award winning, world class transport programme for the Birmingham 2022 Commonwealth Games. Preparations saw the opening of the refurbished Perry Barr Rail Station, widened platforms at University Station and the completion of important Sprint bus routes, Metro extensions and active travel infrastructure. TfWM led the transport operations during the games through its enhanced Regional Transport Co-ordination Centre, transporting over 1.5m spectators and 40,000 workforce to the multiple sports venues, all while keeping the West Midlands moving and ensuring that residents and businesses were supported through bespoke travel information and traffic management programmes.
- Secured £16m additional funding for active travel through Active Travel England. TfWM also delivered a summer of cycling activities as part of the Commonwealth Games Legacy. The Games promoted inclusivity within sport and was used as a catalyst for change to help improve inclusivity of cycling through the Cycling for Everyone (C4E) programme.
- Phase two of the Birmingham Westside Metro extension took the line along Broad Street to Hagley Road adding three stops along the way at Brindley Place and Five Ways to the end of the line at Edgbaston Village.
- TfWM, in collaboration with Coventry City Council, are working to create the UK's first all-electric bus city by 2025. This took a major step forward with 50 new greener buses on the streets of Coventry.
- Secured £88 million for Bus Improvements and £1.05 billion to transform road, bus, rail, tram, cycling and walking infrastructure across the region through the City Region Sustainable Transport Settlement.
- Delivered a region wide Enhanced Partnership to support our bus services, the largest of its kind in the country. We continued to negotiate funding with government to maintain the network across the West Midlands that provides for 80% of public transport journeys.
- Swift continued to grow in popularity across the region with a record high 90% customer satisfaction and provides the leading best value cap outside of London across the bus and tram network via our 'Swift Go' package. This means our customers can make as many journeys as they like in a day, or over an entire week. We place a maximum cost of fares or 'cap' on those journeys and once the cap is reached our customers carry on travelling for free. Swift vending machines are now at all key bus stations and Birmingham Airport, with more rolling out across the network during 2023.
- The Policy and Strategy Team led a refresh of the Local Transport Plan, with a new Core Strategy being approved in early 2023 and a set of six Big Moves being developed throughout 2023/24.

During 2023 – 2024 we want to roll-out and then embed the Performance Roadmap. The aim is to give greater transparency and visibility of performance information across the whole organisation. This will take time and the chart below shows that journey. The dotted arrow indicates where we are now, we generally look back at our performance. Ultimately, we want to move forward to a more predictive and prescriptive position. We have a massive opportunity to move further along the performance maturity graph by embedding the performance roadmap. To achieve that we will:

- Continue to engage and consult across WMCA to develop SMART (Specific Measurable Achievable Realistic Timebound) measures of our performance.

- Make sure that performance information is visible and is cascaded across teams to support evidence-based decision making.

- Develop the ABP (Annual Business Plan) dashboard to provide a more holistic view of performance (finance, performance and risk).
- Continue developing our organisational health dashboard – data on people, finance and things like complaints and customer, so that leaders can identify at a glance the direction of travel and trends.



5. 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 on page 12 shows the overall consolidated revenue position for the Authority compared with the budget approved by the Authority Board in February 2022, 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 2022/23

£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	117,015	117,015	0							117,015	117,015
Commonwealth Games	27,306	18,656	8,650	27,306							27,306
Revenue Grants & Other Income	35,369	8,338	27,031		34,523		846				35,369
Adult Education Funding	124,574	140,577	(16,003)		124,574						124,574
Share of Business Rates	10,500	10,500	0							10,500	10,500
Constituent Membership	4,644	4,644	0							4,644	4,644
Non Constituent Members	510	510	0							510	510
Investment Programme	36,500	36,500	0							36,500	36,500
Investment Income	3,035	898	2,137						3,035		3,035
Use of Reserves	15,824	15,195	629	9,706	6,118						15,824
Total Funding	**375,277**	**352,833**	**22,444**	**37,012**	**165,215**	**0**	**846**	**0**	**3,035**	**169,169**	**375,277**
Transport for West Midlands	122,124	126,093	3,969	122,124							122,124
Commonwealth Games	27,306	18,656	(8,650)	27,306							27,306
Economic Delivery, Skills & Communities	149,801	149,446	(355)		149,801						149,801
Strategy, Integration and Net Zero	14,600	6,177	(8,423)		14,600						14,600
Housing & Rengeneration	1,904	1,455	(449)		1,904						1,904
Portfolio Support	3,855	3,055	(800)		3,855						3,855
Investment Programme	49,137	47,105	(2,032)			49,137					49,137
Mayoral Office	846	846	0				846				846
Mayoral Election	0	0	0					0			0
Total Expenditure	**369,573**	**352,833**	**(16,740)**	**149,430**	**170,160**	**49,137**	**846**	**0**	**0**	**0**	**369,573**
Net Income (before reserves)	**5,704**	**0**	**5,704**	**(112,418)**	**(4,945)**	**(49,137)**	**0**	**0**	**3,035**	**169,169**	**5,704**
Transfer to earmarked reserve (2023/24) Capital Pressures	**2,400**	**0**	**(6,350)**	2,400							2,400
Transfer to earmarked reserve (2023/24) Transport Events	**500**	**0**	**(3,600)**	500							500
Net Expenditure (after reserves)	**2,804**	**0**	**(2,804)**	**(115,318)**	**(4,945)**	**(49,137)**	**0**	**0**	**3,035**	**169,169**	**2,804**

Transport	1,697	0	1,697
Portfolios	1,107	0	1,107
Investment Programme	0	0	0
Mayoral Office	0	0	0
Total Surplus / (Deficit)	**2,804**	**0**	**2,804**

The table 2 shows the overall consolidated revenue position for the WMCA.

Total income for the financial year at £375m is higher than budget by £22m. Additional funding of £8.6m for the Commonwealth Games was made available by the Organising Committee for the deployment of a contingency fleet during the industrial action. Revenue Grants and Other Income are higher than budget by £27.0m mainly due to new grant funding received in year since the budget was set. Predominantly, this relates to funding within the Economic Delivery, Skills and Communities (ESC) Portfolio relating to Employment and Skills, specifically, Digital Skills (£7.1m), Multiply (£3.1m) and UK Shared Prosperity Fund (£2.1m). Further funding was secured within ESC relating to the Community Renewal Fund (£3.3m) and West Midlands Made Smarter (£2.7m) along with funding for the Tourism, Trade and Investment Programme (£7.4m). The adverse variance of £16.0m on the Adult Education funding budget reflects lower take up on Level 3 skills than anticipated in the budget and grant clawbacks relating to the 2021/22 academic year due to the effect of the pandemic on learner numbers.

Total expenditure of £369.6m, is higher than the budgeted expenditure of £352.8m, mainly in relation to the Commonwealth Games as above, and the Tourism, Trade and Investment Programme where the budget and funding for the programme was agreed after the original budget was set in February 2022. Total expenditure 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 £5.7m. Provisions have been made for future funding pressures within the capital programme (£2.4m) and to support WMCA in hosting transport events (£0.5m) such as the 2027 Intelligent Transport Systems World Congress bid, as reported to September 2022 WMCA Board.

The final outturn position at the end of March shows a surplus of £2.8m. This comprises £1.7m within Transport and £1.1m within Portfolios and represents a favourable variance from budget.

Transport saw higher advertising income than budgeted (£1.2m), savings against the Accessible Transport budget (£1.1m) and staff cost savings due to vacant posts. External advice savings (£2.1m) were diverted to fund an additional Metro subsidy requirement of £4.2m. Savings within the Concessions' budgets are due to lower patronage and fare levels and have been transferred to an ear-marked reserve to protect against future risks in relation to the bus network.

Within the Portfolios budgets, the surplus is largely due to vacant posts across several Portfolios resulting in savings against staffing budgets and external advice due to activity being re-profiled pending recruitment during the year.

Capital Programme Performance

The WMCA 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 WMCA spent £347.0m on capital projects in 2022/23 (see note 31) with the major items of expenditure as detailed in Table 3 below. Total capital expenditure was £243.9m less than the budget of £590.9m, with variances spread across all programmes including significant movement experienced in the following areas; WMCA Investment Programme (£58.9m), the Investment Programme Grants to Local Authorities (£36.4m), Housing (£45.7m) and CRSTS (£33.6m). The overall variance primarily reflects the re-phasing of activities in relation to the various Metro extension and rail schemes. Furthermore, grants allocated to Local Authorities via the Investment Programme are taking place later than originally planned. Stretched resourcing within Local Authorities has had a significant impact on the progression of schemes, and projects have also been affected by increasing construction and labour costs. In the main, delivery schedules are not anticipated to be impacted by the rephasing of expenditure plans into 2023/24.

Table 3a) : Major Items of Capital Spend 2022/23

	£ million
Metro Wednesbury to Brierley Hill Extension	55.7
Metro Birmingham Eastside Extension	40.6
CRSTS Local Authority Highways Maintenance payments	24.1
Coventry Friargate Business District Phase 1	21.6
University Station	20.6
CRSTS Local Authority Local Network Improvement Plan payments	16.0
Rail Camp Hill Line Local Enhancements	13.8
SPRINT A45 Birmingham-Airport-Solihull	13.5
Metro Wolverhampton City Centre Extension	11.3
Black Country Land and Property Investment Fund	11.1

The capital programme spending of £347.0m was financed in the following way:

Table 3b) : Financing of Capital Expenditure 2022/23

	£ million
Government grants	227.3
Borrowing	68.4
District/Local Enterprise Partnership (LEP) grants and contributions	12.0
Third party contributions	26.7
Gainshare contribution	12.6
Total	**347.0**

Debt Management

Following the hiatus in expenditure during the COVID-19 pandemic, WMCA's capital programme works restarted in 2021/22 and have continued in 2022/23. To unwind a proportion of its historic under-borrowed capital financing position and to mitigate against interest rate rises, the Authority accessed £335m of Public Works Loan Board (PWLB) and United Kingdom Infrastructure Bank (UKIB) borrowing in 2021/22. This was augmented by a further £65m of PWLB borrowing in May 2022. All borrowing has been driven by the delivery of the Investment Programme. The Authority remains '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.

On 31 March 2023, the Authority had debt outstanding of £507.91m, well within the authorised limit for external debt of £821m. Debt outstanding is made up of the following figures:

	As at 1 April 2022	In Year Repaid	In Year Raised	As at 31 March 2023	Notes
	£m	£m	£m	£m	
PWLB	432.00	(12.33)	65.00	484.67	PWLB Certainty Rate Loan
Barclays	10.00	-	-	10.00	No change
WM County Council (Transferred Debt)	4.67	(1.00)	-	3.67	Annual repayment of principal
UKIB	10.00	(0.43)	-	9.57	Annual repayment of principal
Total Long-Term Borrowing	**456.67**	**(13.76)**	**65.00**	**507.91**	

Rates for medium to long term borrowing rose considerably during the year as central banks looked to 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 (in particular, City Region Sustainable Transport Settlement) short term deposits (investments of 365 days or less) increased during the year from £616m (2022/23) to £712m (2022/23). This is made up of the following figures:

2021/22 £m		2022/23 £m
189.16	Bank Deposits	88.50
427.00	Local Authorities / Housing Associations / UK Government Backed Deposits	623.50
616.16	**Total**	**712.00**

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.

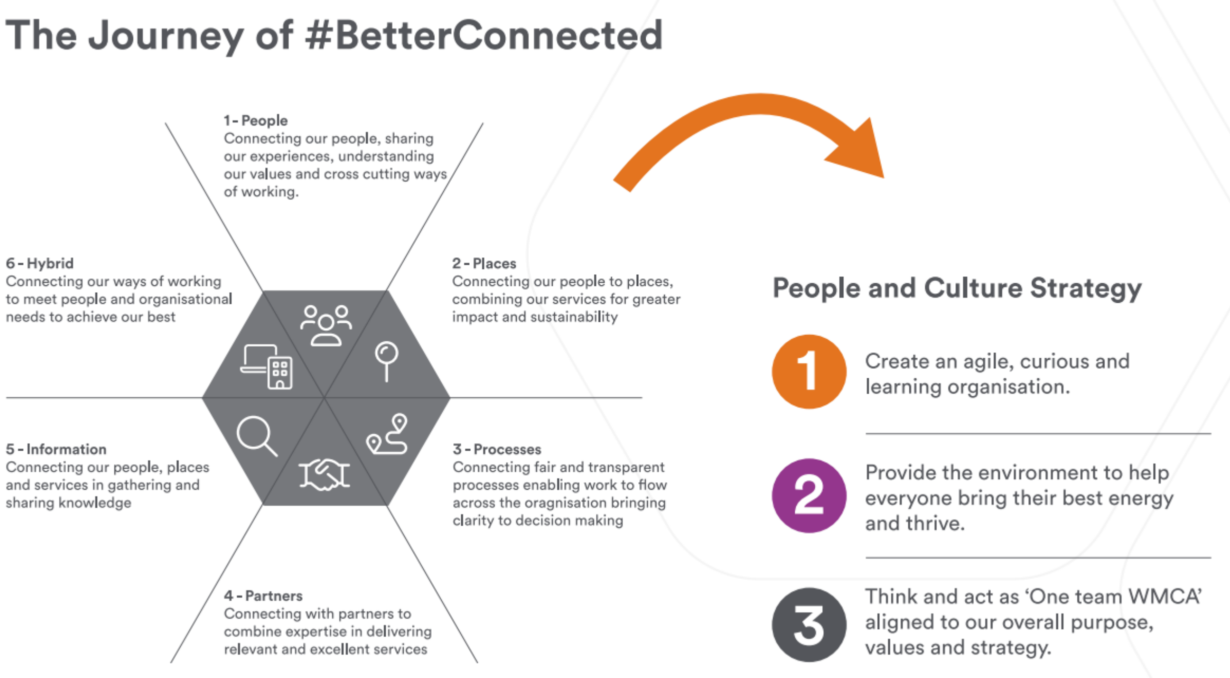
Regular cash-flow forecasting is undertaken at a short, medium and long-term level to ensure that the Authority can plan ahead and continually monitor the financial environment, assisted by sector specialists. This will ensure that there are sufficient lenders in place to borrow from in a timely and 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. The Authority continues to rely 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.

6. Strategy and resource allocation

People are our best resource and vital to our success. We all achieve more when we work in a more integrated way. That's why we launched #BetterConnected in the summer of 2022. It's an exciting time for the WMCA and we are engaging with staff on how best to be a more integrated organisation and find the solutions to help co-create the next steps on our journey.

Our first People and Culture strategy launched in April 2023 sets out what great looks like for our staff and is built on three main principles, guiding the journey from attraction and recruitment and setting out how the WMCA will operate. This is a really bold vision that will support the transformation of the WMCA.

- Create an agile, curious and learning organisation – be a learning organisation and encourage our people to learn, be curious and open to new ideas.
- Provide the environment to help everyone bring their best energy and thrive – ensure colleagues feel connected to our purpose and operate in an environment where they can deliver high performance.
- Think and act as 'One team WMCA' aligned to our overall purpose, values and strategy – develop a community of collaborators focussed on delivery of our purpose.
- Enable everyone to participate and contribute, together we are responsible for creating our culture.



Revenue Budget 2023/2024

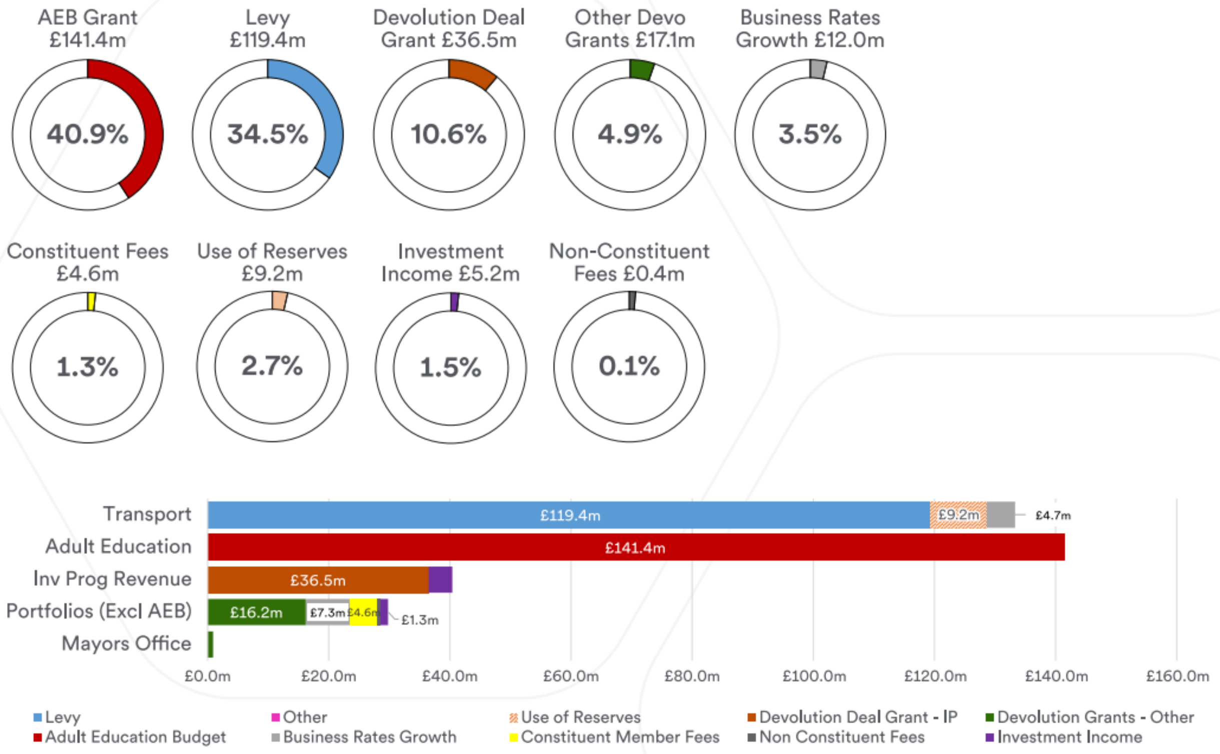
The consolidated revenue budget as reported to the WMCA Board in February was £345.0m, The table below shows how this income is sourced and where it gets allocated for expenditure.

Since that time, the revenue budget has been revised upwards by £27.9m to take account of new grants received to support Portfolio delivery, including UK Shared Prosperity Fund (UKSPF) £14.3m and funding for Digital Skills £10.6m. As reported previously, the Adult Education Budget funding for financial year 2023/24 (including Free Courses for Jobs) has also increased by £0.8m compared to budgeted assumptions reported to Board in February 2023. Most of the changes impact on the Economic Delivery, Skills and Communities Directorate. The changes have an overall net nil impact.

WMCA have committed to working with Constituent Authorities throughout 2023 to develop a longer-term, sustainable budget and plan, following confirmation by Government of the Deeper Devolution Deal.

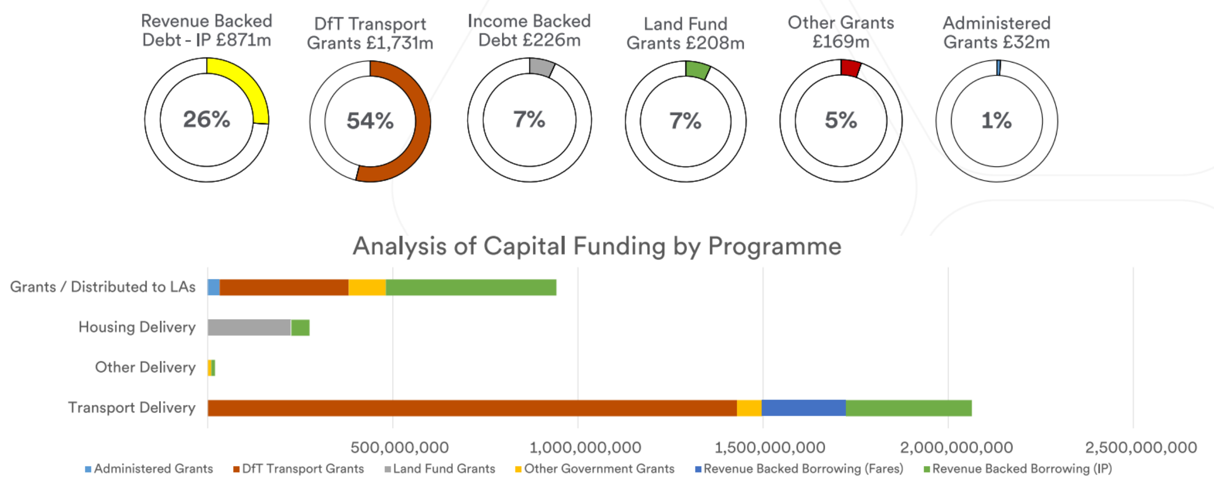
Financial Position

2023 / 2024 Revenue Budget Analysis



Capital Programme Analysis 2023/2024

The WMCA Capital Programme is summarised in these tables highlighting the current planned capital investment between 2022/23 and 2026/27. This position represents the latest 2022/23 reforecast; the final 2023/24 Capital Budget will be presented to WMCA Board at the earliest opportunity in June 2023 following confirmation of the 2022/23 outturn position.



Medium-Term Financial Plan (MTFP)

The WMCA 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;
- Inflationary rises including impact of energy uplifts, pay awards and contractual requirements;
- 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 (following an increase of 2% approved for 2023/24) and their contributions to the Authority's Wider Services Budget up to and including 2027/28. 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 2023/24 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 2023/24 to 2027/28

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Transport Levy	119.4	119.4	119.4	119.4	119.4
Revenue Grants & Other Income	222.0	180.7	179.2	179.3	179.4
Share of Business Rates	12.0	11.6	10.6	14.7	11.1
Constituent Membership	4.6	4.6	4.6	4.6	4.6
Non Constituent Members	0.4	0.4	0.4	0.4	0.4
Investment Income	5.2	1.4	1.4	1.4	1.4
Assumed Mayoral Precept	0.0	0.0	1.0	1.0	1.1
Use of Reserves	9.2	0.7	0.7	0.7	0.7
Total Funding	**372.9**	**318.9**	**317.3**	**321.6**	**318.1**
Transport for West Midlands	133.2	148.8	154.8	172.5	171.1
Portfolio & Enabling Services Budgets	198.3	157.4	157.2	157.6	158.1
Investment Programme	40.4	36.6	36.6	36.6	36.6
Mayoral Office	0.9	0.9	1.0	1.0	1.1
Mayoral Election	0.0	4.0	1.0	1.0	1.0
Enabling Services	0.0	0.1	0.1	0.1	0.1
Total Expenditure	**372.9**	**347.7**	**350.6**	**368.7**	**367.8**
Net Expenditure	**0.0**	**-28.8**	**-33.3**	**-47.2**	**-49.7**

The MTFP set out in the table above was noted by the WMCA Board in January 2023. A balanced budget position for 2023/24 was approved by the WMCA Board on 10 February 2023. However, there currently remains a gap in available funding to support expenditure plans ranging from £28.8m in 2024/25 rising to £49.7m in 2027/28.

The Department for Levelling Up, Housing and Communities published its Levelling Up White Paper in February 2022. As part of this, WMCA, along with Greater Manchester Combined Authority, were invited to apply for ‘Trailblazer Devolution Deals’. The WMCA entered negotiations with HM Government, seeking ambitious changes to WMCA’s devolved powers and resources, strengthening the region and creating opportunities for future success, driving local and regional priorities in the West Midlands. The Deeper Devolution Deal (previously called Trailblazer Devolution Deal) shows confidence in the WMCA as a forerunner in the delivery of activity, granting new powers (e.g. public health, careers advice, devolving retrofit funding and bus service operators grant) and financial flexibilities, some of which will materialise after the next Spending Review, so 2025/26 onwards. It commits the WMCA to partnership arrangements with Government and other organisations on areas such as national arts and culture, targeted employment support, local oversight and control of public transport services. It provides certainty around some income streams to fund existing revenue activity and provides additional resources for the remaining schemes in the 2016 Investment Programme. Some of the key features of the agreement with Government include:

- A long-term commitment to the current arrangements in respect of business rates, extending the 100% business rates retention scheme pilot for a further 10 years. The current MTFP already had some assumptions around Business Rates Income, so this provides some surety around this but does not guarantee any additional resources in the short term.
- New ‘growth zones’ which are subject to further design but where business rates growth above an agreed baseline can be retained for 25 years.
- Commitment to a single settlement across the next Spending Review period (multi-year settlement), leaving it up to the region to determine how best to deploy. The benefits of a single settlement, cover three main elements:
    - Longer terms settlements to allow certainty of funding, long term strategic decision making and to facilitate the development of local capacity to deliver programmes.
    - Flexibility to use different strands of funding to maximum effect. Removing contradictory grant conditions, enabling WMCA to align objectives and set realistic time horizons
    - Reduced requirement to commit resources to bidding for national monies, competing against other areas.

Despite the above, there remains an element of fiscal uncertainty in the short term, and particularly around the funding for transport. There is still a need for Government to provide some sustainable funding for the bus network. Lobbying will also continue for provision of sustainable funding for holding future Mayoral elections.

WMCA will continue to review existing established expenditure budgets to drive efficiency savings in the medium term. A £3m efficiency target has been built into the financial plans.

The process to refresh the MTFP for the period 2024/25 to 2028/29 has already commenced, to include the latest position on additional spending requirements, changes in income and impact of macro-economic variables.

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

- **Inflation rates** – The Consumer Prices Index (CPI) rose by 10.4% in the 12 months to February 2023, up from 10.1% in January but below a recent peak of 11.1% in October 2022. 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.

- **Current Economic Climate** – The financial plans include assumptions around Business Rates growth income. The disruption caused by the pandemic has had a big effect on the labour market and employment patterns; and the war in Ukraine has hit businesses and consumers hard as inflation has soared. The West Midlands is particularly challenged as the shape of the regional economy leaves it particularly exposed to these trends.

- **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 confirmation in March 2023 of the outcome of its latest triennial actuarial valuation which sets the contributions for the three years 2023/24 to 2025/26. It is possible that at the next valuation the WMCA may have to make increased annual contributions, or a lump sum contribution to offset any funding shortfall in the pension scheme.

- **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. The Deeper Devolution Deal has provided some additional resources for the Investment Programme.

- **Borrowing Powers** – The amendment to statutory regulations which 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 Chief Secretary to the Treasury (CST) has considered and has set the WMCA's debt cap at £1,234m for 2023/24 and £1,277m for 2024/25. The Authority is able to apply for a reset in the event that our capital investment plans change.

- **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. The service is still impacted by lower than anticipated patronage following the pandemic. 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 Executive Director of Finance & Business Hub (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 Executive Director of Finance & Business Hub (Section 151 Officer) comfort that the General Fund balance is sufficient in the short term.

7. 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 Executive Board. The SRR is reviewed by Executive Board on a quarterly basis to ensure key risks are captured and effective mitigation measures are in place to reduce or eliminate the resulting effects.

Operational Risk Registers are either in place within directorates or are being developed, with review meetings taking place across all the Authority's activities enabling full visibility of those risks with the potential to impact on the organisation's success. These meetings allow management teams the opportunity to monitor the status of risks, ascertain the level of risk exposure, and track activity to manage or mitigate the risk. The Risk Management Framework includes a process that allows for risks to be escalated from the Operational Risk Registers, ultimately to the SRR. Taken together, this activity provides assurance around our risk management activity.

Risk Management, Performance Management and Business Planning activity is being brought together to provide a strong evidence base to support risk identification, substantiate risk assumptions, and improve decision making.

Progress of the 2022/23 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 Executive Board and quarterly to the Authority Board.

Following review of the SRR in March 2023, there were 13 strategic risks rated High. A brief explanation of these risks is provided below.

Failure to deliver the opportunities and benefits of the Investment Programme	Decisions taken about the supplementary or alternative income streams, for example Business Rates Growth, Business Rates Supplement, raise the risk around the delivery of the opportunities and benefits of the Investment Programme.
External factors	External uncertainties such as changes in Government policy, alongside other factors e.g. challenges following the pandemic, may not be adequately factored into WMCA plans.

Inflation and global supply chain pressures	Macro-economic events are placing pressure on both 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.
TfWM Programme Cost Management	Programme financial management failures could result in over-ambitious budgets being set for programmes / projects leading to possible cost-over runs, and an inability to provide reliable cost-certainty.
Financial resilience of WMCA to absorb fiscal shocks	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.
Information Assurance and Security	Data protection requirements and/or proper protective security of all WMCA assets, information systems, premises and people are not reasonably and proportionately maintained.
Stakeholder and 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.
Capacity and capability	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.
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 we are now starting to see increases in bus customer numbers.
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.
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.
Financial Sustainability of the MCA 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 capita.

Cost of Living Crisis	The UK is experiencing the highest rates of inflation in forty years. This has primarily been driven by increases in the cost of electricity, gas, other fuels, food and transport, primarily driven by increases in fuel costs. 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.

Opportunities

Deeper Devolution Deal - A landmark deal for the West Midlands
For the West Midlands this landmark deal, announced during the Spring budget and estimated to be worth in the region of £1.5bn, will reboot the economy, provide vital housing, jobs and skills, bolster our existing strengths in transport and Smart City Region innovation.

It will drive our net zero ambitions – generating economic growth and levelling up outcomes for all our residents and communities.

Some highlights are summarised below and more information can be found at Devolution Deal for the West Midlands (wmca.org.uk).

For us at the WMCA this deal gives us more certainty about our funding in years to come so that we can work more strategically to boost jobs, business, housing, transport and the environment. A deal of this scale will provide plenty of new opportunities for us and will bring further attention to the great work we're already doing at the Combined Authority.

The Deeper Devolution Deal was announced as our 2023/24 Business Plan was going to print so it could mean that a lot of the information provided on priorities and our High Level Deliverables shifts during the year. We will take time to consider the detail and we will be developing mobilisation plans as that detail unfolds. We will need to be innovative, flexible and better connected throughout the organisation as we continue to deliver with our partners for the West Midlands.

The Government has awarded funding to WMCA of more than £1 billion over a five-year period commencing in 2022/23 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 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.

In May 2023, at the UK's Real Estate Investment & Infrastructure Forum (UKREiiF) we were pleased to announce that SEGRO, the leading owner, manager and developer of warehouse and industrial space, has been announced as a strategic partner of the WMCA, with a commitment to invest £2bn over the coming decade to deliver next generation, net-zero warehouse facilities in the West Midlands. The development programme is expected to create up to 14,000 jobs across a wide range of employment types and industry sectors. As a strategic partner and commencing with their 450-acre site at SEGRO park in Coventry, they aim to deliver 13.5 million sq ft of sustainable warehouse space across the West Midlands by the end of 2033, focused on tech-enabled logistics facilities as well as purpose-built space for Research & Development and light manufacturing. This will contribute significantly to our Plan for Growth while also supporting our vision of a more prosperous and better-connected West Midlands which is fairer, greener and healthier.

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.

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.

The WMCA has also entered into a joint venture with the City of Wolverhampton Council to co-invest in 100 affordable housing properties on a development in Wolverhampton called 'The Marches' which has been set up as a 'Help to Own Scheme' to provide housing to people who do not have the funds for a deposit or own a house already. WMCA has a 44% stake in the joint venture, which is known as the HTO Group comprising two LLP companies (HTO1/HTO2). As such, it is not consolidated in the Group accounts.

8. 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.

9. 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.

10. 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 2022/23 (the Code) and are for the full year from 1 April 2022 to 31 March 2023.
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.

11. Directors and Senior Officers

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

Directors/Senior Officers	Title	Appointment/Resignation
Laura Shoaf	Chief Executive	
Ed Cox	Executive Director of Strategy, Integration and Net Zero	
Gareth Bradford	Executive Director of Housing, Property and Regeneration	Resigned – 23 July 2023
John Godfrey	Interim Executive Director of Housing, Property and Regeneration	Appointed – 10 July 2023
Julie Nugent	Executive Director of Economic Delivery, Skills and Communities	Resigned – 31 May 2023
Clare Hatton	Interim Director for Employment, Skills, Health and Communities	Appointed – 22 May 2023
Anne Shaw	Executive Director, Transport for West Midlands	
Linda Horne	Executive Director of Finance & Business Hub	
Siobhan Bassford	Director of Communications	
Satish Mistry	Interim Director or Law and Governance	Resigned – 31 January 2023
Helen Edwards	Director of Law and Governance	Appointed – 9 January 2023

12. Auditors

Grant Thornton (UK) LLP are the auditors of the Authority for 2022/23. 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 2023.

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 2022 to 31 March 2023 were approved by a resolution of the Audit, Risk and Assurance Committee on 4 December 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 31st March 2023 and up to the date of approval of this Statement and the Statement of Accounts.

West Midlands Combined Authority (WMCA) was established on 17th June 2016 by the West Midlands Combined Authority Order and is made up of 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 6th 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

In the Levelling-Up White Paper in February 2022, Government set out its expectations in relation to the integration of LEPs and their business boards into the Combined Authority. On 31st March 2022 the Departments for Levelling Up, Housing and Communities (DLUHC) and Business, Energy, and Industrial Strategy (BEIS) issued a joint letter and accompanying Guidance to the Chairs of the LEPs in England and to the Mayors of Combined Authorities setting out their proposals for the roles and functions of LEPs to be integrated into local democratic institutions.

Following the letter from Ministers, the three LEP Boards each took decisions on their future status in the autumn following consultation with local public and private partners. While ultimately each LEP has resolved to close, the path for each is specific to local circumstances as summarised below.

- Black Country LEP - Closure by 31 March 2023.
- Coventry & Warwickshire LEP - Closure by 31 March 2023, with some ongoing activities undertaken by Coventry and Warwickshire Growth Hub.
- Greater Birmingham & Solihull LEP - Closure by 31 March 2024, with specific functions transferring or ceasing at milestones during 2023/24 (agreed at the GBSLEP Board meeting on 22/09/22)

The WMCA is a democratically accountable and politically led public/private partnership, combining the insight of private leaders, in depth knowledge of place and accountability with the democratic accountability of elected Local Authority Members. This was reflected in the WMCA Order which specified the three LEP Chairs as business representatives on the WMCA Board. The WMCA has committed, post-LEP integration, to strengthen private sector input across the full breadth of WMCA activity. Strong and meaningful private sector engagement ensures better informed decision making by embedding commercial acumen and business expertise into the process and by allowing the WMCA to better communicate with its business base and focus on the areas that matter most or where real value can be added.

There are four Observers of the Authority. These are:

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

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 ten 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
h.	Midlands Development Capital Ltd	100%	Subsidiary
i.	Network West Midlands Ltd	100%	Subsidiary
j.	WMCA JV Ltd	100%	Subsidiary

*through ownership with 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. Although the stake in the Growth Company is small, WMCA together with other contracting authorities exercises joint control over the company and therefore ensures legal and financial controls are 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 Executive Board (formally 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; evaluating the likelihood of those risks being realised, the impact should they be realised, and managing them efficiently, effectively and economically. To that end, the Authority has been embedding the revised Strategic Risk Management Framework, raising awareness of the structure and the tools available for WMCA staff to ensure consistency in how risks are identified, managed, monitored and escalated. Alongside this activity, the authority continues to focus on providing visibility of risk at strategic level. A strategic risk register is updated quarterly and reported to and reviewed by Audit, Risk and Assurance Committee (ARAC) and the Executive Board.

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.

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 Director of Law and Governance, who holds the role of 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 continues to grow from the organisation that was established in 2016. The first review 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 in progress within transport and are due to be undertaken in respect of wellbeing and public service reform responsibilities. WMCA will consider whether its current governance arrangements remain suitable following the announcement of the Deeper Devolution Deal in March 2023 and will make recommendations for change if appropriate.

WMCA is committed to a better connected, more prosperous, fairer, greener and healthier region. This is our vision and will be achieved through living the Authority's 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 is also 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. All public meetings are now recorded and accessible through YouTube on-demand. Following the end of the temporary regulations allowing for hybrid and virtual meetings during Covid-19, all meetings constituted under the Local Government Act 1972 must be held in person and only those members present are considered part of the quorum and are able to vote.

The Authority has in place a committee management system that proactively publishes information relating to public meetings, decisions and the Forward Plan 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, including the assessment and effectiveness of relationship frameworks in order to identify and implement any changes if 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 is 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 considered 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 Question & Answer sessions with the Mayor twice yearly, with the questioning focusing on policy delivery and budget setting. All of its meetings are held in public, recorded and available through YouTube on-demand. The overview and scrutiny function will be reviewed in 2023 when the requirements of the Deeper Devolution Deal in respect of greater accountability and scrutiny become clearer.

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

The Authority ensures the vision and implications for governance arrangements 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.

To ensure the purpose and vision of the Authority is clear and well communicated, an Annual Business Plan (ABP) is produced, and closely aligned to the WMCA Aims & Objectives that were agreed by WMCA Board in November 2021. The ABP outlines all activities to be undertaken in 2023/24 to deliver against these objectives, with progress regularly monitored through a number of outcome measures (both High Level Deliverables and profiled milestones) and reported monthly to the Executive Board and bi-annually to WMCA Board. The 2023/24 outcome measures were agreed by WMCA Board in February 2023 as part of the Budget report.

The Aims & Objectives are approved by WMCA Board 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 its Aims and objectives.

The Executive Board 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 and the Scheme of Delegation.

Corporate strategic decisions are primarily taken at meetings of the WMCA Board, with Investment Fund decisions up to the value of £20M having been 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 the roles and responsibilities of the Board, Scrutiny and officer functions within the Constitution, with clear delegation arrangements and protocols for effective communication in place. As the Authority continues to evolve, we will review governance arrangements and revise the Constitution to ensure it remains fit for purpose. A Scheme of Delegations is laid out in the Constitution.

Our Performance Management and Monitoring & Evaluation Frameworks, together with a 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, this enables regular conversations about the activity to be delivered and the resources, both financial and people, required to achieve this. Our behavioural framework is fundamental to our performance framework and will align to our goals – ensuring a 'golden thread' between the corporate aims and objectives through to individual performance management goals, enabling every one of our people to see their contribution to the Authority's vision. This facilitates 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, Information Security and GDPR are met.

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) provides the structure and the tools for WMCA staff to undertake consistent risk management that protects the WMCA and supports the delivery of our objectives. In addition, it documents the risk management roles and responsibilities across the Lines of Defence, helping support the WMCA Board, Chief Executive Officer (CEO), Statutory Officers and Senior Leaders in creating and embedding a strong risk culture within the organisation. The last year has seen a specific focus on supporting an integrated approach to risk management at project and programme level alongside the Authority's Programme Assurance and Appraisal activity. We are now targeting the embedding of good risk management at operational and Directorate level, to similarly support an integrated approach to risk and performance management.

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 functions; it has an independent, external Chair. They monitor and review 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, and the newly established WMCA JV Limited.

The Single Assurance Framework was updated during 2022 and was approved by WMCA Board in December 2022. The review incorporated the National Local Growth Assurance Framework requirement for an annual review and outlined the Authority's specific approaches to Housing and Transport schemes and the Adult Education Budget.

The updated document follows more closely the structure of the National Local Growth Assurance Framework, making a distinction between governance and assurance requirements. Flowcharts contained within the framework, describing key processes, have been simplified and the assurance section within the framework reflects the different stages of the Single Assurance Framework, including change control processes.

The Framework supports good governance with enhanced assurance tools and processes and the appraisal of business cases and change requests to identify any improvement opportunities, together with any ongoing risks to inform the decision-making process. The Single Assurance Framework continues to be aligned to the Department of Levelling Up, Housing and Communities (DLUHC) National Local Growth Framework, issued in September 2021.

The Single Assurance Framework is supplemented by an Investment Panel and Investment Board, whose remit has been expanded to include the review and approval of all investment decisions, not just Investment Programme projects (which was the case prior to 2022). The Investment Board has had its delegated approvals authority increased from £5 million to £20 million and its Terms of Reference have been updated accordingly.

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 Authority has recognized the need for increased scrutiny of its operations and has strengthened its Internal Audit provision within the past year with the appointment of two Internal Auditor posts in addition to, and to support the existing internal audit services provided by the City of Wolverhampton Council.

The majority of the Authority's audits of its Key Financial Systems received a 'Substantial' internal audit rating during the annual review of all financial systems in 2022/23, with Payroll and Accounts Payable being rated 'Satisfactory'. Actions arising from these reviews are actively being addressed with completion expected by May 2023.

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

The Authority is continuing to implement the WMCA Single Assurance Framework which was originally approved by MHCLG (previously Department of Communities and Local Government (DCLG)) in July 2020 and was more recently updated and approved by WMCA Board in December 2022.

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 the Executive Board and attends the WMCA Board meetings to ensure all activities are conducted in a legal manner. 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 2022/23 Internal Audit Plan was approved at ARAC's April 2022 meeting.

An annual review of any arm's length companies of the Authority is completed to assess and provide assurance that these operate with satisfactory governance and assurance arrangements in place. The Monitoring Officer is currently undertaking a review of all companies in which WMCA has involvement, and will strengthen arrangements for oversight of them going forward, in addition to providing additional training for all councillors and officers who act as directors of companies as part of their Combined Authority responsibilities.

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.

Key Governance Issues

Last year's Annual Governance statement highlighted a number of areas to be considered for development in 2022/23. The table below sets out the actions that have been taken to address these:

Area	Proposed action	Action 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.	There were two key recommendations from the independent review, both of which we are now implementing. We needed to strengthen the 'Owner's Team' with technical support to oversee and challenge our Operator/Maintainer MML. The head of that new team started in January, and we are currently interviewing candidates for three additional posts reporting to him. We were recommended to add an independent Chair of MML and one or two non-exec Directors. We are preparing for a recruitment process in the coming months.

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.	The policy was reviewed and approved by Corporate Management Team and the Strategic Leadership Team in September 2022. The Head of HR is responsible for the role of Chief of Safeguarding with the Head of Legal and Head of Systems, Change and Inclusion listed as the Designated Safeguarding Lead Officers. Online safeguarding training is mandatory for all staff. Additional face to face training is commissioned for key roles associated with safeguarding arrangements and for targeted areas that come into contact with vulnerable children and adults.
Single Assurance Framework (SAF)	An annual 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 Housing and Transport schemes and the Adult Education Budget.	A review of the SAF has been completed, incorporating the requirements of the National Local Growth Assurance Framework and detailing the approach for Housing and Transport schemes and the Adult Education Budget. The revised framework was approved by WMCA Board in December 2022.
Corporate Aims and Objectives	Continued embedding of a performance management culture, providing management with reporting arrangements to demonstrate its achievement in delivering the Corporate Aims through the Annual Business Plan.	A performance management framework and associated roadmap was approved by the Exec Board in July 2023 and this set out a 3 year plan to move from our current performance measurement approach towards using predictive analytics and trend analysis to a performance improvement state. There are Power BI reports that are shared with Exec Directors monthly for ABP performance and they are encouraged to cascade and share across teams to encourage increased psychological safety around reporting. In addition, improved dashboards on organisational health showing trends, benchmarking and direction of travel are shared with CMT monthly. For 24/25 the ABP dashboards will also show capital funding linked to high level deliverables (HLDs) and we have started to link to strategic risks; this ensures a triangulated view of performance and enables improved data-driven, evidence-based decision making.

<table>
<tr><td>Governance review</td><td>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</td><td>A report in relation to the rationalisation of decision-making and advisory bodies was considered by the WMCA Board at the AGM on 9 June 2023.

The modern.gov committee management system has been introduced for workflow of reports and will be used for all decision-making bodies from the start of the new municipal year.

There is a new role for a Member Relationships Manager that will be recruited to before the start of the new municipal year.

A report from the Independent Remuneration Panel was also considered by the WMCA Board at the meeting on 9 June 2023.</td></tr>
<tr><td>Freedom of Information / GDPR</td><td>Review to be undertaken of our data protection and security policies.</td><td>An Information Governance Group has been established. Its terms of reference were approved by CMT in (check date) with its first meeting having taken place in March 2023. Part of the terms of reference for this group is to undertake an annual rolling review of all Data Protection and information governance policies. This is currently in progress. Over the first quarter of 23/24, reviews will have been completed and updated policies will be communicated to all staff.</td></tr>
</table>

Annual Review of Effectiveness of Governance Framework

The Opinion of the Director of Law and Governance 2022/23

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 Director of Law and Governance and the Executive Finance Director respectively.

The 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 Executive Board.

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

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

As at 23 March 2023 a number of internal audit reviews were nearing completion. Unless anything of significance is raised through these, prior to their completion, and dependent upon the final outcome of an independent investigation into a breach of the Combined Authority's financial regulations whereby costs on a capital project had exceeded the budget provision, we should be able to provide reasonable assurance that the Combined Authority has adequate and effective governance, risk management and internal control processes.

The Single Assurance Framework (SAF) has been implemented across all WMCA Directorates and oversight of business cases and change requests by the Programme Assurance and Appraisal team, as part of the SAF process, continues to increase; demonstrating improved project controls and consistent processes are being implemented across the organisation. This is helping to manage risks and drive improvements in the quality of business cases and overall project and programme management activity.

Regular reporting on Programme Assurance and Appraisal team activity, together with insights regarding common themes, issues and any recommendations for improvement have been provided to the Executive Board and ARAC throughout 2022/23.

Progress of the 2022/23 High Level Deliverables was monitored on a monthly basis by the Executive Board through exception reporting and against identification of key risks that could impact on delivery. In addition, performance was reported to WMCA Board mid-year and at year end.

The Strategic Risk Management Framework includes an escalation process that allows for risks to be escalated, ultimately to the Strategic Risk Register. Quarterly reporting of the strategic risk register is working effectively, and work has been focussed on collaboration with the Programme Assurance and Appraisal team to improve consistency of risk management across all projects and programmes. As this starts to embed, attention has turned to improving the consistency of Operational or Directorate Risk Registers and to focus attention on enabling Directorates to have full visibility of key risks with the potential to impact on the organisation's ability to deliver its business plan objectives. The aim is for Risk Management, Performance Management and Business Planning activity to provide a strong evidence base to 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 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 three 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 worked with public transport providers to ensure that appropriate measures were in place to safeguard the public and took a key role in the regional response and recovery arrangements. We continue to lead on the work needed to ensure that the economic recovery of the West Midlands is put on a secure footing.

The Authority has set itself a demanding programme of work and is ambitious for itself and the benefits that it aims 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 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 identified for progression in 23/24 and are outlined within the table below.

Area	Action to be taken
Overall governance	The Monitoring Officer has identified a need to review the Constitution, with the aim of making recommendations to the Board during 2023
Overall governance	Informal internal committees and formal decision making committees, together with processes, are to be reviewed during 2023 with a view to streamlining governance procedures to ensure the authority is able to respond to the increased responsibilities of the 2023 devolution deal. This will include the continued role out of the workflow functionality in Modern.gov, consideration as to how the Governance and Legal teams are resourced and reconvening the Independent Remuneration Panel to consider member allowances.
Audit, Risk and Assurance	A review of how internal audit is provided at WMCA has been initiated.
Governance and Accountability in the new devolution deal	Work is commencing in partnership with Department for Levelling Up, Housing and Communities, the Centre for Governance and Scrutiny and Greater Manchester Combined Authority in relation to a new scrutiny protocol as detailed in the new deal.
Strengthening Scrutiny	Work is commencing in partnership with Department for Levelling Up, Housing and Communities, the Centre for Governance and Scrutiny and Greater Manchester Combined Authority in relation to strengthening scrutiny and in particular in relation to members of parliament scrutinising the Mayor and portfolio lead.
Engagement with constituent and non constituent local authorities	Work is ongoing to strengthen governance relationships with the local authorities. A west midlands governance network has been set up where forward plans and areas of best practice can be shared and joint working initiatives explored where appropriate.

Member Induction and Engagement	A new member induction programme will be developed for the start of the new municipal year. This will seek to ensure that all members sitting on WMCA meetings are fully briefed as to the role of the WMCA and how it links and works with the Local Authorities and other regional partners.
Awareness raising as to the role of a CA and governance arrangements.	The Head of Governance is working with ADSO to produce a new training course to raise awareness of what CAs do and how they link with both local authorities and central government. Updated training slides on CAs will be included in all ADSO training as it is developed.
Webcasting of meetings – openness and transparency	Investigations are commencing as to options for improving our facilities in Summer Lane in relation to hosting public meeting meetings and in particular our ability to host hybrid meetings and to webcast public meetings.

Conclusion

In undertaking this 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:

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

	2021/2022					**2022/2023**	
Gross Expenditure	**Gross Income**	**Net Expenditure**			**Gross Expenditure**	**Gross Income**	**Net Expenditure**
£'000	£'000	£'000		Notes	£'000	£'000	£'000
291,746	(154,691)	137,055	Transport services		336,138	(243,501)	92,637
181,801	(172,047)	9,754	Combined Authority wider services		183,074	(188,701)	(5,627)
95,613	-	95,613	Investment Programme		124,639	-	124,639
782	(760)	22	Mayor's office		849	(898)	(49)
3,118	-	3,118	Mayoral elections		-	(35)	(35)
573,060	**(327,498)**	**245,562**	**Cost of services**		**644,700**	**(433,135)**	**211,565**
6,226	-	6,226	Other operating expenditure	8	57	(418)	(361)
8,124	(2,680)	5,444	Financing and investment income and expenditure	9	16,793	(12,346)	4,447
63,645	(370,180)	(306,535)	Taxation and non-specific grant income and expenditure	10	1,116	(312,706)	(311,590)
651,055	**(700,358)**	**(49,303)**	**(Surplus) or deficit on provision of services**		**662,666**	**(758,605)**	**(95,939)**
		(67,911)	Remeasurement of the net defined benefit asset/liability	27			(82,621)
		877	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	25			(90)
		(67,034)	**Other Comprehensive Income and Expenditure**				**(82,711)**
		(116,337)	**Total Comprehensive Income and Expenditure**				**(178,650)**

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

2021/2022					2022/2023		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
301,547	(164,517)	137,030	Transport services		342,785	(250,202)	92,583
192,559	(181,709)	10,850	Combined Authority wider services		184,800	(190,559)	(5,759)
95,488	-	95,488	Investment Programme		124,407	-	124,407
782	(760)	22	Mayor's office		849	(898)	(49)
3,118	-	3,118	Mayoral elections		-	(35)	(35)
593,494	**(346,986)**	**246,508**	**Cost of services**		**652,841**	**(441,694)**	**211,147**
6,226	-	6,226	Other operating expenditure	8	57	(418)	(361)
8,970	(2,639)	6,331	Financing and investment income and expenditure	9	16,920	(12,295)	4,625
62,905	(370,180)	(307,275)	Taxation and non-specific grant income and expenditure		1,116	(312,706)	(311,590)
671,595	**(719,805)**	**(48,210)**	**(Surplus) or deficit on provision of services**		**670,934**	**(767,113)**	**(96,179)**
		-	Tax expenses of subsidiary				-
		(48,210)	**Group (surplus) or deficit**				**(96,179)**
		(67,911)	Remeasurement of the net defined benefit asset/liability	27			(82,621)
		877	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	25			(90)
		(67,034)	**Other Comprehensive Income and Expenditure**				**(82,711)**
		(115,244)	**Total Comprehensive Income and Expenditure**				**(178,890)**

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 2021	**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)	-	67,911	-	67,034	116,337
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**	**54,711**	**(108)**	**81,118**	**116,337**
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)**	**(11,559)**	**(1,138)**	**74,971**	**298,075**
Movements in reserves during 2022/23													
Total comprehensive income and expenditure	95,939	-	95,939	-	95,939	-	-	90	-	82,621	-	82,711	178,650
Adjustments between accounting basis and funding basis under regulations (note 6b)	(45,742)	-	(45,742)	418	(45,324)	(193)	57,597	(513)	317	(12,032)	148	45,324	-
Increase or (decrease) in 2022/23 before transfer to earmarked reserves	**50,197**	**-**	**50,197**	**418**	**50,615**	**(193)**	**57,597**	**(423)**	**317**	**70,589**	**148**	**128,035**	**178,650**
Transfers (to)/from earmarked reserves	(47,393)	47,393	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 March 2023 carried forward	**4,411**	**267,049**	**271,460**	**2,259**	**273,719**	**5,933**	**141,863**	**(1,070)**	**(1,760)**	**59,030**	**(990)**	**203,006**	**476,725**

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	Revaluation Reserve £'000	Capital Adjustment Account £'000	Financial Instruments Revaluation Reserve £'000	Financial Instruments Adjustment Account £'000	Pensions Reserve £'000	Accumulated Absences Account £'000	Total Unusable Reserves £'000	Total Authority Reserves £'000	Authority's Share of Reserves of the Subsidiary £'000	Total reserves £'000
Balance at 31 March 2021	**2,348**	**183,696**	**186,044**	**1,841**	**187,885**	**6,319**	**57,222**	**-**	**(2,388)**	**(66,270)**	**(1,030)**	**(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	-	-	(877)	-	67,911	-	67,034	115,258	(14)	115,244
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**	**-**	**-**	**(877)**	**-**	**67,911**	**-**	**67,034**	**116,337**	**(1,093)**	**115,244**
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**	**54,711**	**(108)**	**81,118**	**116,337**	**(1,093)**	**115,244**
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)**	**(11,559)**	**(1,138)**	**74,971**	**298,075**	**1,436**	**299,511**
Movements in reserves during 2022/23															
Total comprehensive income and expenditure	96,044	-	96,044	-	96,044	-	-	90	-	82,621	-	82,711	178,755	135	178,890
Adjustments between group accounts and authority accounts	(105)	-	(105)	-	(105)	-	-	-	-	-	-	-	(105)	105	-
Net increase/decrease before transfers	**95,939**	**-**	**95,939**	**-**	**95,939**	**-**	**-**	**90**	**-**	**82,621**	**-**	**82,711**	**178,650**	**240**	**178,890**
Adjustments between accounting basis and funding basis under regulations (note 6b)	(45,742)	-	(45,742)	418	(45,324)	(193)	57,597	(513)	317	(12,032)	148	45,324	-	-	-
Increase or (decrease) in 2022/23 before transfer to earmarked reserves	**50,197**	**-**	**50,197**	**418**	**50,615**	**(193)**	**57,597**	**(423)**	**317**	**70,589**	**148**	**128,035**	**178,650**	**240**	**178,890**
Transfers to/(from) earmarked reserves	(47,393)	47,393	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 March 2023 carried forward	**4,411**	**267,049**	**271,460**	**2,259**	**273,719**	**5,933**	**141,863**	**(1,070)**	**(1,760)**	**59,030**	**(990)**	**203,006**	**476,725**	**1,676**	**478,401**

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 2023		31 March 2022	
		Authority	Group	Authority	Group
	Notes	£'000	£'000	£'000	£'000
Property, plant and equipment	14	701,027	701,391	599,895	600,242
Intangible assets	15	1,781	1,781	1,911	1,911
Long-term investments	16	33,774	33,774	22,346	22,346
Long-term debtors	29	16,392	16,392	16,159	16,159
Net pension asset	27	59,030	59,030	-	-
Long-term assets		**812,004**	**812,368**	**640,311**	**640,658**
Short-term investments	16	694,141	694,141	501,257	501,257
Inventories	17	7,770	9,059	8,467	9,418
Short-term debtors	18	107,147	108,899	66,748	70,885
Cash and cash equivalents	19	28,788	30,472	120,465	122,051
Current assets		**837,846**	**842,571**	**696,937**	**703,611**
Short-term borrowing	20	(15,956)	(15,956)	(15,319)	(15,319)
Short-term creditors	21	(142,863)	(146,276)	(121,552)	(127,137)
Provisions	22	(2,232)	(2,232)	(2,011)	(2,011)
Grants receipts in advance - revenue	10	(35,235)	(35,235)	(20,936)	(20,936)
Transferred debt	23	(1,175)	(1,175)	(1,074)	(1,074)
Current liabilities		**(197,461)**	**(200,874)**	**(160,892)**	**(166,477)**
Net current assets/(liabilities)		**640,385**	**641,697**	**536,045**	**537,134**
Long-term borrowing	20	(491,457)	(491,457)	(439,232)	(439,232)
Provisions	22	(3,110)	(3,110)	(2,837)	(2,837)
Grants receipts in advance - capital	10	(478,536)	(478,536)	(424,109)	(424,109)
Transferred debt	23	(2,561)	(2,561)	(3,670)	(3,670)
Net pension liability	27	-	-	(8,433)	(8,433)
Long-term liabilities		**(975,664)**	**(975,664)**	**(878,281)**	**(878,281)**
Net assets		**476,725**	**478,401**	**298,075**	**299,511**
General Fund Balance	24	4,411	4,411	1,607	1,607
Earmarked Reserves	24	267,049	268,604	219,656	221,106
Capital Receipts Reserve	24	2,259	2,259	1,841	1,841
Profit and Loss Reserve	24	-	121	-	(14)
Usable reserves		**273,719**	**275,395**	**223,104**	**224,540**
Revaluation Reserve	25	5,933	5,933	6,126	6,126
Capital Adjustment Account	25	141,863	141,863	84,266	84,266
Financial Instruments Revaluation Reserve	25	(1,070)	(1,070)	(647)	(647)
Financial Instruments Adjustment Account	25	(1,760)	(1,760)	(2,077)	(2,077)
Pensions Reserve	25	59,030	59,030	(11,559)	(11,559)
Accumulated Absences Account	25	(990)	(990)	(1,138)	(1,138)
Unusable reserves		**203,006**	**203,006**	**74,971**	**74,971**
Total reserves		**476,725**	**478,401**	**298,075**	**299,511**

This Statement of Accounts replaces the unaudited Statement of Accounts certified by Linda Horne on 30 June 2023. They were approved for issue by the Audit, Risk and Assurance Committee on 4 December 2023. Events after the Balance Sheet date have been considered up to the date of approval.

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.

	2023		2022	
	Authority £'000	Group £'000	Authority £'000	Group £'000
Net surplus/(deficit) on the provision of services	95,939	96,179	49,303	48,210
Adjustments to net surplus or deficit on the provision of services for non-cash movements				
Depreciation and amortisation of non-current assets	26,790	26,954	21,801	21,907
Revaluation increase	(1,409)	(1,409)	-	-
Net amounts of non-current assets written off on disposal	57	57	6,226	6,226
Non-current assets transferred to provision of services	1,677	1,677	817	817
Other non-cash items charged to the net (deficit)/surplus on the provision of services	513	513	(230)	(230)
Change in pensions liability (note 27)	15,158	15,158	16,741	16,741
(Increase)/decrease in long-term debtors	(233)	(233)	(208)	(208)
(Increase)/decrease in short-term debtors	(40,399)	(38,014)	(17,034)	(18,884)
Decrease/(increase) in inventories	697	359	4,615	4,486
Increase/(decrease) in short-term creditors	21,311	19,139	9,692	10,988
Increase/(decrease) in provisions	494	494	543	543
Net interest payable	1,534	1,585	4,584	4,624
Interest paid	(13,258)	(13,258)	(6,276)	(6,275)
Interest received	12,346	12,295	2,680	2,639
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities				
Capital grants received	(143,537)	(143,537)	(204,891)	(204,891)
Capital grants paid	1,116	1,116	63,645	63,645
Any other items for which the cash effects are investing or financing cash flows	(418)	(418)	-	-
Net cash flows from operating activities	**(21,622)**	**(21,343)**	**(47,992)**	**(49,662)**
Investing activities				
Purchase of property, plant and equipment and intangible asset	(128,117)	(128,298)	(145,264)	(145,465)
Purchase of short-term and long-term investments	(1,637,949)	(1,637,949)	(778,996)	(778,996)
Proceeds from short-term and long-term investments	1,433,214	1,433,214	379,485	379,485
Capital grants received for the purchase of property, plant and equipment, intangible asset and inventories	142,421	142,421	141,246	141,246
Increase/(decrease) in grants receipts in advance	68,726	68,726	94,929	94,097
Other receipts from investing activities	418	418	-	-
Net cash flows from investing activities	**(121,287)**	**(121,468)**	**(308,600)**	**(309,633)**
Financing activities				
Cash receipts of short- and long-term borrowing	115,000	115,000	382,000	382,000
Repayment of loans	(62,760)	(62,760)	(48,440)	(48,440)
Transferred debt - repayment of principal	(1,008)	(1,008)	(916)	(916)
Net cash flows from financing activities	**51,232**	**51,232**	**332,644**	**332,644**
Net increase or decrease in cash and cash equivalents	**(91,677)**	**(91,579)**	**(23,948)**	**(26,651)**
Cash and cash equivalents at 1 April	120,465	122,051	144,413	148,702
Cash and cash equivalents at 31 March (note 19)	**28,788**	**30,472**	**120,465**	**122,051**

Notes Index

1. Basis of preparation

a) General principles

The Statement of Accounts summarises the Authority and the Group's transactions for the 2022/23 financial year and the position as at 31 March 2023. 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 2022/23 (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 2023.

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, West Midlands Development Capital Limited and WMCA JV Limited which are subsidiaries of the Authority; its associates, West Midlands Rail Limited and Black Country Innovative Manufacturing Organisation;

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 16 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 in hand and deposits with any financial institutions repayable without penalty on notice of not more than 24 hours. These include call accounts and money market funds. 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 2022/23, 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.

The Authority has a de minimis limit of £35,000 which is reviewed annually, for the recognition of property, plant and equipment and intangible assets.

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. 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
  - Infrastructure 10 - 30 years
  - Trams 30 years

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

Midland Metro – future routes

Expenditure, other than land purchase, on other areas of the network will be capitalised once approval for a particular line is received and the development is likely to proceed. 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:

<u>Group Boundaries</u>
The Authority has a number of interests in other entities which fall within the group boundary (see note 16). 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 as at 31 March 2023 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 2023 IAS 19 valuation report:

  - A 0.1% p.a. decrease in the Real Discount Rate will increase the pension fund liability by £3.652m.
  - An increase of life expectancy at retirement by 1 year will increase the pension fund liability by £9.739m.
  - 0.1% p.a. increase in the Salary Increase Rate will increase the pension fund liability by £0.394m.
  - 0.1% p.a. increase in the Pension Increase Rate (CPI) will increase the pension fund liability by £3.308m.

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 2023/24 CIPFA Code of Practice are:

- IFRS 16 Leases (unless adopted voluntarily) – CIPFA/LASAAC has deferred the implementation of IFRS 16 Leases for the public sector until 2024/25, with an effective date of 1 April 2024
- Amendments to IAS 8 (definition of accounting estimates) – a new definition on accounting estimates, replacing the definition of accounting of a change in accounting estimates
- Amendments to IAS 1 and IFRS Practice Statement 2 (disclosure of accounting policies) – material accounting policy information is now required to be disclosed instead of its significant accounting policies and clarity provided on the definition of material
- Amendments to IAS 12 (deferred tax related to assets and liabilities arising from a single transaction) – clarified on the recognition of deferred tax in relation to leases (when a lessee recognises an asset and a liability at the lease commencement) and decommissioning obligations (when an entity recognises a liability and includes the decommissioning costs in the cost of the item of property, plant and equipment)
- Amendments to IFRS 3 (reference to the Conceptual Framework) – updated reference to the 2018 Conceptual Framework and included a requirement for the application of IAS 37 or IFRIC 21 for transactions and other events within the scope of these standards

These amendments will either not be applicable and have no impact or will not have a material 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

		2022/2023		2021/2022	
		Authority Net Expenditure	Group Net Expenditure	Authority Net Expenditure	Group Net Expenditure
	Notes	£'000	£'000	£'000	£'000
Total Comprehensive Income and Expenditure		**(178,650)**	**(178,890)**	**(116,337)**	**(115,244)**
Adjustments between funding and accounting basis under regulations	6	45,742	45,742	14,084	14,084
Transfer to Pensions Reserve	27	82,621	82,621	67,911	67,911
Transfer to Financial Instruments Revaluation Reserve	25	90	90	(877)	(877)
Transfers to/from Earmarked Reserves					
- General fund	24	17,057	16,930	15,558	14,712
- Unapplied revenue grants	24	26,097	26,097	16,181	16,181
- Investment programme funding	24	4,239	4,471	4,221	3,988
(Surplus) or deficit for the year under funding basis		**(2,804)**	**(2,939)**	**741**	**755**

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 2022/23

	As reported for resource management	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	115,318	(16,503)	(7,145)	91,670	967	92,637
Combined Authority wider services	4,945	(16,066)	4,323	(6,798)	1,171	(5,627)
Investment Programme	49,137	(14,740)	(4,039)	30,358	94,281	124,639
Mayor's office	-	(49)	-	(49)	-	(49)
Mayoral elections	-	(35)	-	(35)	-	(35)
Cost of services	**169,400**	**(47,393)**	**(6,861)**	**115,146**	**96,419**	**211,565**
Other operating expenditure	-	-	-	-	(361)	(361)
Financing and investment income and expenditure	(3,035)	-	6,861	3,826	621	4,447
Taxation and non-specific grant income and expenditure	(169,169)	-	-	(169,169)	(142,421)	(311,590)
(Surplus) or deficit on provision of services	**(2,804)**	**(47,393)**	-	**(50,197)**	**(45,742)**	**(95,939)**
Opening General Fund Balance (including Earmarked Reserves)				(221,263)		
Closing General Fund Balance (including Earmarked Reserves)				**(271,460)**		

Comparatives for 2021/22	As reported for resource management	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	114,720	515	(6,243)	108,992	28,063	137,055
Combined Authority wider services	6,603	(15,326)	2,245	(6,478)	16,232	9,754
Investment Programme	45,683	(24,289)	(1,619)	19,775	75,838	95,613
Mayor's office	-	22	-	22	-	22
Mayoral elections	-	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 (including Earmarked Reserves)				(186,044)		
Closing General Fund Balance (including Earmarked Reserves)				**(221,263)**		

(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 2022/23

	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	25,381	99,909	(129,970)	(3,026)	-	8,821	(148)	967
Combined Authority wider services	1,862	7,197	(10,674)	-	-	2,786	-	1,171
Investment Programme	-	112,304	-	(18,023)	-	-	-	94,281
Mayor's office	-	-	-	-	-	-	-	-
Mayoral elections	-	-	-	-	-	-	-	-
Net cost of services	**27,243**	**219,410**	**(140,644)**	**(21,049)**	**-**	**11,607**	**(148)**	**96,419**
Other operating expenditure	57	-	-	(418)	-	-	-	(361)
Financing and investment income and expenditure	-	-	-	-	196	425	-	621
Taxation and non-specific grant income and expenditure	-	-	(142,421)	-	-	-	-	(142,421)
(Surplus) or deficit on provision of services	**27,300**	**219,410**	**(283,065)**	**(21,467)**	**196**	**12,032**	**(148)**	**(45,742)**

Comparatives 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)**

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	
	2022/23	2021/22
	£'000	£'000
Expenditure		
Employee benefits expenses	45,151	39,513
Other service expenses	342,966	257,501
IAS 19 pension adjustment	12,032	13,200
Depreciation, amortisation and revaluation	27,243	27,706
REFCUS	217,733	236,484
Other operating expenditure	57	6,226
Interest payments	16,368	6,780
Capital grants paid	1,116	63,645
	662,666	651,055
Income		
Fees and charges and other service income	(15,904)	(16,443)
Other operating income	(418)	-
Government revenue grants and contributions	(313,087)	(212,103)
Capital grants funding REFCUS credited to cost of services	(140,644)	(135,452)
Local Authority business rates growth and contributions	(15,654)	(14,069)
Levies	(117,015)	(114,720)
Capital grants and contributions	(143,537)	(204,891)
Interest and investment income	(12,346)	(2,680)
	(758,605)	(700,358)
Surplus on provision of services	**(95,939)**	**(49,303)**

8. Other operating expenditure

	Authority	Group	Authority	Group
	2022/23	2022/23	2021/22	2021/22
	£'000	£'000	£'000	£'000
Loss on disposal of property, plant and equipment	57	57	6,226	6,226
Share of disposal proceeds on asset funded from grant	(418)	(418)	-	-
Total	**(361)**	**(361)**	**6,226**	**6,226**

The loss on disposal of property, plant and equipment relates to the removal of historic RTI, minor Metro assets and bus stops/shelters.

9. Financing and investment income and expenditure

	Authority 2022/23 £'000	Group 2022/23 £'000	Authority 2021/22 £'000	Group 2021/22 £'000
Interest payable and similar charges on borrowings:				
PWLB	12,987	12,987	6,610	6,610
Barclays	403	403	403	403
Other	307	307	12	12
Interest payable on the former transferred debt	248	248	304	304
Impairment loss allowance (notes 16 and 18)	1,910	2,037	(319)	527
Net interest on the net defined benefit liability (note 27)	425	425	1,344	1,344
(Gains)/losses on financial assets at fair value through profit and loss (note 25)	513	513	(230)	(230)
	16,793	16,920	8,124	8,970
Interest receivable and similar income	(9,882)	(9,831)	(1,111)	(1,070)
Other investment income	(2,464)	(2,464)	(1,569)	(1,569)
Total	**4,447**	**4,625**	**5,444**	**6,331**

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.

Other investment income relates to the loan interest income from the Collective Investment Fund (see note 16).

10. Government and other grant income

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

	Authority	
	2022/23	2021/22
	£'000	£'000
Revenue grants and contributions credited to cost of services		
Active Travel Fund	21	1,027
Active Travel Capability Fund	3,456	-
Adult Education Budget	145,862	142,699
Bus Service Improvement Plan	7,371	-
Bus Service Operator Grant	1,792	1,792
Bus Services Support Grant	-	793
Business and Tourism Programme	6,556	5,240
City Region Sustainable Transport Settlements	10,752	-
Commonwealth Games	32,946	5,279
Construction Skills	-	945
Digital Bootcamp	7,122	1,492
Employment Support Pilot	48	967
European Social Fund	1,289	-
Housing Package	1,635	1,133
Local Authority Capability Fund	1,566	-
Local Transport Authority Bus Recovery	16	1,132
Local Transport Fund	33,385	-
Made Smarter West Midlands	2,094	1,519
Mayoral Capacity Fund	1,000	1,000
Midlands Connect Programme	4,446	5,129
Multiply Local Allocations	3,052	-
Sales, Fees & Charges Support Grant	-	391
UK Community Renewal Fund	3,271	1,744
UK Shared Prosperity Fund	2,101	-
Other grants and contributions less than £1m	6,806	3,321
Total	**276,587**	**175,603**
Capital grants funding Revenue Expenditure Funded from Capital under Statute credited to cost of services		
A45 Sprint	-	21,969
All-Electric Bus Town or City	9,632	11,111
Brownfield Housing	3,177	5,038
Bus Priority	182	5,617
City Region Sustainable Transport Settlements	55,654	-
Commonwealth Games	-	9,060
Digital Devices	5,945	-
Future Mobility Zones	2,449	3,929
Getting Building	-	7,802
Land Fund	3,752	8,009
Local Growth Fund	53	144
Local Transport Fund	1,980	898
Transforming Cities Fund	21,376	29,555
UK Shared Prosperity Fund	2,874	-
Contributions from third parties	21,321	25,526
Other grants and contributions	12,249	6,794
Total	**140,644**	**135,452**

	Authority	
	2022/23	**2021/22**
	£'000	£'000
Grants and contributions credited to taxation and non-specific grant income		
Transport levy from the West Midlands districts*	117,015	114,720
Gainshare contribution - MHCLG	36,500	36,500
Business rates growth	10,500	9,000
Constituent, non-constituent and observers membership fees and contributions*	5,154	5,069
Capital grants and contributions	143,537	204,891
Gross income	312,706	370,180
Capital grants paid	(1,116)	(63,645)
Total	**311,590**	**306,535**

*An analysis of the transport levy and constituent and non-constituent member membership fees and contributions by district is shown in note 33 Related party disclosures.

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 overleaf:

	Authority	
	2022/23	**2021/22**
	£'000	£'000
Grants received in advance - capital		
Active Travel Fund	34,812	24,402
All-Electric Bus Town or City	29,248	38,880
Brownfield Housing	128,973	99,665
Bus Priority	18,166	18,348
City Region Sustainable Transport Settlements	102,249	-
Future Mobility Zones	6,283	9,527
Land Fund	58,623	63,478
Local Authority Major Project	15,229	55,873
Local Electric Vehicle Infrastructure	3,017	-
Local Transport Fund	2,900	7,415
Midlands Connect	2,158	2,000
Social Housing Decarbonisation	5,394	7,511
Transforming Cities Fund	28,001	57,221
Zero Emission Bus Regional Area	30,384	30,383
Contributions from third parties	8,109	7,292
Other grants less than £2m	4,990	2,114
	478,536	**424,109**
Grants received in advance - revenue		
Active Travel Fund	1,437	1,040
Air Quality	1,000	-
Bus Service Improvement Plan	10,982	-
Bus Service Operator Grant	627	627
Cycle for Everyone	1,119	1,972
Housing Package	1,986	3,621
Intra-City Transport Settlements	3,627	3,862
Local Authority Capability Fund	275	1,841
Made Smarter	1,195	-
Midlands Connect	2,077	4,047
Multiply Local Allocations	2,017	-
UK Community Renewal Fund	130	1,625
UK Shared Prosperity Fund	5,075	-
Other	3,688	2,301
	35,235	**20,936**

11. 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]	**2022/23**	195	24	219
	2021/22	233	26	259
Director of Law and Governance [2]	**2022/23**	28	3	31
	2021/22	22	2	24
Interim Director of Law and Governance [3]	**2022/23**	169	-	169
	2021/22	215	-	215
Executive Director of Housing, Property and Regeneration	**2022/23**	129	16	145
	2021/22	119	15	134
Executive Director of Strategy, Integration and Net Zero	**2022/23**	129	16	145
	2021/22	123	15	138
Executive Director of Economic Delivery, Skills and Communities	**2022/23**	140	17	157
	2021/22	136	17	153
Director of Communications [4]	**2022/23**	87	11	98
	2021/22	79	10	89
Director of Strategy [5]	**2022/23**	-	-	-
	2021/22	138	9	147
Executive Director of Finance & Business Hub	**2022/23**	134	17	151
	2021/22	126	16	142
Executive Director, Transport for West Midlands [6]	**2022/23**	139	17	156
	2021/22	145	18	163
Mayoral Team				
Mayor	**2022/23**	79	-	79
	2021/22	79	-	79
Deputy Mayor [7]	**2022/23**	4	-	4
	2021/22	-	-	-
Chief of Staff [8]	**2022/23**	-	-	-
	2021/22	31	3	34
Head of Mayoral Operations [8]	**2022/23**	73	9	82
	2021/22	47	6	53
Head of Mayoral Policy & Delivery [8]	**2022/23**	98	12	110
	2021/22	64	8	72

[1] The role was held by two individuals during 2021/22. The current post holder was appointed from the Executive Director, Transport for West Midlands role from June 2021.

[2] Director of Law and Governance was appointed in January 2023 following resignation of the previous post holder 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 and resigned in January 2023 following the appointment of the Director of Law and Governance. The amount disclosed is the amount that has been received by the postholder and does not reflect a full year's fees.

[4] The title was renamed from Operational Director of Strategic Communications to Director of Communications during 2022/23.

[5] 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.

[6] The role was held by two individuals during 2021/22. The current post holder was appointed from Director of Network Resilience, Transport for West Midlands role from July 2021.

[7] Deputy Mayor received allowances from the Authority effective November 2022. Therefore, the amount does not reflect a full year's allowance.

[8] 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 for 2021/22.

The Head of Mayoral Policy & Delivery resigned in April 2023. Following the restructure in the Mayoral team effective 24 May 2023, the role of Head of Mayoral Policy & Delivery and Head of Mayoral Operations has been deleted and replaced with Chief of Staff. The post holder for Head of Mayoral Operations has been appointed the Chief of Staff.

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
	2023	**2022**
£50,000 - £54,999	48	35
£55,000 - £59,999	29	41
£60,000 - £64,999	50	27
£65,000 - £69,999	12	22
£70,000 - £74,999	17	7
£75,000 - £79,999	9	11
£80,000 - £84,999	13	9
£85,000 - £89,999	4	1
£90,000 - £94,999	3	3
£95,000 - £99,999	1	1
£100,000 - £104,999	1	5
£105,000 - £109,999	5	1
£110,000 - £114,999	1	1
£115,000 - £119,999	1	1
£120,000 - £124,999	-	-
£125,000 - £129,999	2	2

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	
	2023	2022	2023	2022	2023	2022
Cost band (including special payments)	No.	No.	No.	No.	£'000	£'000
£0 - £20,000	5	16	5	16	**35**	**69**
£20,001 - £40,000	2	1	2	1	**62**	**27**
£40,001 - £60,000	-	1	-	1	**-**	**57**
£60,001 - £80,000	-	-	-	-	**-**	**-**
£80,001 - £100,000	1	-	1	-	**93**	**-**
	8	**18**	**8**	**18**	**190**	**153**

12. Members' allowances

	Authority and Group	
	2023	**2022**
	£'000	£'000
Allowances	139	125
Total	**139**	**125**

13. External audit costs

Charges relating to work undertaken by the external auditors:

	Authority 2023	Group 2023	Authority 2022	Group 2022
	£'000	£'000	£'000	£'000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	79	111	68	99
Total	**79**	**111**	**68**	**99**

14. 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.

Transfers predominantly consist of movements from Assets Under Construction to other asset groups. Included in Transfers for 2022/23 are reclassifications of assets relating to resurfacing, kerbs and pavement (NBV £2.034m, Cost £3.020m, Accumulated Depreciation £0.986m) that have been transferred from 'Vehicles, plant and equipment' to 'Infrastructure'. This transfer was made as it was determined to be the most appropriate asset grouping.

Movements in 2022/23 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 2022	3,920	52,626	455,183	305,092	816,821
Additions - capital programme (note 26)	10	719	925	126,463	128,117
Transfers	-	(245)	99,907	(99,662)	-
Revaluation increase recognised in the provision of services	1,409	-	-	-	1,409
Depreciation reversed on revaluation	(348)	-	-	-	(348)
Transfers to intangible assets (note 15)	-	-	-	(1,014)	(1,014)
Transfers to provision of services	-	-	-	(1,677)	(1,677)
Disposals	-	(4,716)	(1,156)	-	(5,872)
At 31 March 2023	**4,991**	**48,384**	**554,859**	**329,202**	**937,436**
Accumulated depreciation					
At 1 April 2022	261	29,157	187,508	-	216,926
Transfers	-	(986)	986	-	-
Charge for the year	87	3,604	21,955	-	25,646
Depreciation reversed on revaluation	(348)	-	-	-	(348)
Disposals	-	(4,697)	(1,118)	-	(5,815)
At 31 March 2023	**-**	**27,078**	**209,331**	**-**	**236,409**
Net book value					
At 31 March 2023	4,991	21,306	345,528	329,202	701,027
At 31 March 2022	3,659	23,469	267,675	305,092	599,895

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 2022	3,920	53,454	455,183	305,092	817,649
Additions - capital programme (note 26)	10	719	925	126,463	128,117
Additions - other	-	181	-	-	181
Transfers	-	(245)	99,907	(99,662)	-
Revaluation increase recognised in the provision of services	1,409	-	-	-	1,409
Depreciation reversed on revaluation	(348)	-	-	-	(348)
Transfers to intangible assets (note 15)	-	-	-	(1,014)	(1,014)
Transfers to provision of services	-	-	-	(1,677)	(1,677)
Disposals	-	(4,716)	(1,156)	-	(5,872)
At 31 March 2023	**4,991**	**49,393**	**554,859**	**329,202**	**938,445**
Accumulated depreciation					
At 1 April 2022	261	29,638	187,508	-	217,407
Transfers	-	(986)	986	-	-
Charge for the year	87	3,768	21,955	-	25,810
Depreciation reversed on revaluation	(348)	-	-	-	(348)
Disposals	-	(4,697)	(1,118)	-	(5,815)
At 31 March 2023	**-**	**27,723**	**209,331**	-	**237,054**
Net book value					
At 31 March 2023	4,991	21,670	345,528	329,202	701,391
At 31 March 2022	3,659	23,816	267,675	305,092	600,242

Comparative 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 26)	-	3,320	7,083	134,162	144,565
Transfers	361	8,420	25,634	(34,415)	-
Transfers to intangible assets (note 15)	-	-	-	(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 26)	-	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 15)	-	-	-	(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

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	-	-	-	329,202	329,202
Carried at depreciated historical cost	-	48,384	554,859	-	603,243
Valued at current value as at:					
31 March 2023	1,071	-	-	-	1,071
31 March 2022	-	-	-	-	-
31 March 2021	-	-	-	-	-
31 March 2020	-	-	-	-	-
31 March 2019	3,920	-	-	-	3,920
Total cost or valuation	**4,991**	**48,384**	**554,859**	**329,202**	**937,436**

Capital commitments

At 31 March 2023, the Authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2023/24 and future years budgeted to cost £38.9m (2022: £37.8m). The major commitments are listed in the table below:

	2023	2022
	£'000	£'000
Metro Third Generation Trams	22,753	31,494
Metro extension schemes	12,937	6,338
Rail carpark	3,200	-
	38,890	**37,832**

15. Intangible assets

	Authority and Group	
	2023	**2022**
	£'000	£'000
Cost		
At 1 April	2,946	1,992
Additions - capital programme (note 26)	-	699
Transfers from assets under construction (note 14)	1,014	255
At 31 March	**3,960**	**2,946**
Amortisation		
At 1 April	1,035	398
Amortisation for the year	1,144	637
At 31 March	**2,179**	**1,035**
Net carrying amount		
At 31 March	1,781	1,911

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

16. Investments

	Long-term		Current		Authority and Group Total	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Loans investments - Collective Investment Fund	29,457	16,157	11,520	5,334	40,977	21,491
Loss allowance	(4,164)	(2,714)	(825)	(238)	(4,989)	(2,952)
Loans investments - Collective Investment Fund	25,293	13,443	10,695	5,096	35,988	18,539
Investments in subsidiaries and joint ventures	3,764	3,673	-	-	3,764	3,673
Pooled investment funds	4,717	5,230	-	-	4,717	5,230
Deposits with financial institutions and local authorities	-	-	683,446	496,161	683,446	496,161
Total	**33,774**	**22,346**	**694,141**	**501,257**	**727,915**	**523,603**

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 9).

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 83 and in note 29 on page 104.

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

Deposits with financial institutions and local authorities primarily consists of short term (365 days or less) fixed term deposits, certificates of deposit (CDs) and fixed term bonds as prescribed under the Authority's Treasury Management Strategy.

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
WMCA JV Limited	100%	£1	Dormant
West Midlands Growth Company Limited	5%	n/a - limited by guarantee	Trading
Black Country Innovative Manufacturing Organisation	50%	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.

WMCA JV Limited was incorporated under the Companies Act 2006 as a private limited company on 16 March 2023.

Black Country Innovative Manufacturing Organisation was incorporated under the Companies Act 2006 as a private limited company (limited by guarantee) on 23 May 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.

17. Inventories

		2023		**2022**
	Authority	**Group**	**Authority**	**Group**
	£'000	£'000	£'000	£'000
Balance at 1 April	8,467	9,418	13,082	13,904
Purchases	1,165	1,846	1,290	1,821
Recognised as an expense in the year	(1,862)	(2,205)	(5,905)	(6,307)
Balance at 31 March	**7,770**	**9,059**	**8,467**	**9,418**

18. Short-term debtors

		2023		**2022**
	Authority	**Group**	**Authority**	**Group**
	£'000	£'000	£'000	£'000
Loans to group undertakings	219	-	346	-
Loss allowance	(219)	-	(346)	-
Loans to group undertakings	-	-	-	-
Trade debtors and accrued income	93,493	94,174	42,119	46,000
Other debtors	877	905	10,561	10,586
Prepayments	12,777	13,820	14,068	14,299
Total	**107,147**	**108,899**	**66,748**	**70,885**

Included within trade debtors and accrued income are monies owed in respect of grant funding claims and monies owed from operators for ticketing. Prepayments consist of prepayments for concessions to operators and capital prepayments for the Midland Metro extensions and other capital schemes. Other debtors consist of amounts recoverable for VAT.

The loss allowance relates to potential losses recognised in the Comprehensive Income and Expenditure (see note 9).

19. Cash and cash equivalents

	Carrying amount			
	2023		2022	
	Authority	Group	Authority	Group
	£'000	£'000	£'000	£'000
Cash at bank and in hand	238	622	465	701
Deposits with financial institutions	28,550	29,850	120,000	121,350
Total	**28,788**	**30,472**	**120,465**	**122,051**

20. Borrowing

	Authority and Group	
	2023	2022
	£'000	£'000
Lender		
Public Works Loan Board (PWLB)	484,666	431,991
Barclays	10,000	10,000
UK Infrastructure Bank	9,565	10,000
Accrued interest payable	3,182	2,560
Total	**507,413**	**454,551**
Maturity		
Principal and accrued interest due within one year	15,956	15,319
1 - 2 years	25,594	25,563
2 - 5 years	38,515	38,464
5 - 10 years	111,614	111,537
Over 10 years	315,734	263,668
Principle due after more than one year	491,457	439,232
Total	**507,413**	**454,551**

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 £50m of short-term borrowing which was repaid in year (2022: £47m). The amount of fixed rate debt is 100% (2022: 100%) with no variable rate debt (2022: nil).

Historically, the majority of Group borrowing has been undertaken through HM Treasury's lending facility (i.e. Public Works Loan Board (PWLB)).

The Group is able to access PWLB debt at 80 basis points above the UK Gilt rate. Loans totalling £65m were secured from this source in 2022/23 to unwind the Group's previously under borrowed position and provide low interest rate funding prior to multiple bank rate rises during the year.

In order to mitigate against the cost of rising interest rates, the Authority has set up a forward rate borrowing facility with Phoenix Group in 2021/22 to provide lending of £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 the 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.

21. Short-term creditors

		2023		**2022**
	Authority	**Group**	**Authority**	**Group**
	£'000	£'000	£'000	£'000
Trade creditors and accruals	136,436	139,393	115,065	119,687
Taxes and social security	1,093	1,449	1,102	1,925
Payments received on account	5,334	5,434	5,385	5,525
	142,863	**146,276**	**121,552**	**127,137**

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.

22. Provisions

Current year movements	**Transport development**	**Buildings maintenance**	**Rail services/ insurance**	**Total Authority and Group**
	£'000	£'000	£'000	£'000
Balance at 1 April 2022	2,011	1,608	1,229	4,848
Additional provision	319	-	302	621
Amounts used	(98)	-	(29)	(127)
Balance at 31 March 2023	**2,232**	**1,608**	**1,502**	**5,342**
Current	2,232	-	-	2,232
Long-term	-	1,608	1,502	3,110
Total	**2,232**	**1,608**	**1,502**	**5,342**

Prior year comparatives	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**

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.

23. 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	
	2023	**2022**
	£'000	£'000
Balance at 1 April	4,744	5,660
Accrued interest payable - brought forward	(65)	(65)
Repayment in the year - principal	(1,008)	(916)
Accrued interest payable - carried forward	65	65
Balance at 31 March	**3,736**	**4,744**
Due within one year	1,175	1,074
Due over one year	2,561	3,670
Total	**3,736**	**4,744**

24. 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 2022	56,577	118,796	44,283	219,656
Receivable in year	-	-	196,420	196,420
Utilised in year	-	-	(170,323)	(170,323)
Net unapplied in year	-	-	26,097	26,097
Released in year to general reserves	(17,485)	(47,361)	-	(64,846)
Transfers in year from general reserves	34,542	51,600	-	86,142
Net transfer (to)/from general reserves	17,057	4,239	-	21,296
Total transfer (to)/from general reserves	**17,057**	**4,239**	**26,097**	**47,393**
Balance at 31 March 2023	**73,634**	**123,035**	**70,380**	**267,049**

Group	Earmarked general fund	Investment programme funding reserve	Unapplied revenue grants	Total Group
	£'000	£'000	£'000	£'000
Balance at 1 April 2022	56,923	119,900	44,283	221,106
Receivable in year	-	-	196,420	196,420
Utilised in year	-	-	(170,323)	(170,323)
Net unapplied in year	-	-	26,097	26,097
Released in year to general reserves	(17,612)	(47,361)	-	(64,973)
Transfers in year from general reserves	34,542	51,832	-	86,374
Net transfer (to)/from general reserves	16,930	4,471	-	21,401
Total transfer (to)/from general reserves	**16,930**	**4,471**	**26,097**	**47,498**
Balance at 31 March 2023	**73,853**	**124,371**	**70,380**	**268,604**

Prior year comparatives
Authority

	Earmarked general fund	Investment programme funding reserve	Unapplied revenue grants	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**

Earmarked general fund
This reserve contains contributions in the year to primarily 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 largely contains revenue grants that the Authority has received from the DfE in respect of the Adult Education Budget 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	
	2023	**2022**
	£'000	£'000
Opening balance at 1 April	1,841	1,841
Share of disposal proceeds of asset funded from the Brownfield Land & Property Development Fund	418	-
Transfer to the Capital Receipts Reserve upon receipt of cash from loan repayments under Collective Investment Fund	15,657	27,971
Use of the Capital Receipts Reserve to finance capital expenditure	(15,657)	(27,971)
Closing balance at 31 March	**2,259**	**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
	2023	**2022**
	£'000	£'000
Opening balance at 1 April	(14)	-
In-year profit/(loss) results for subsidiaries, adjusted for Group accounting policies and elimination of intra-group transactions	135	(14)
Closing balance at 31 March	**121**	**(14)**

25. 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	
	2023	**2022**
	£'000	£'000
Opening balance at 1 April	6,126	6,319
Difference between current value depreciation and historical cost	(193)	(193)
Closing balance at 31 March	**5,933**	**6,126**

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	
	2023	**2022**
	£'000	£'000
Opening balance at 1 April	84,266	57,222
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 14 and 15)	(26,790)	(21,801)
Revaluation increase recognised in the provision of services (note 14)	1,409	-
Adjusting amount written out of the Revaluation Reserve (note 25)	193	193
Loss on disposal of property, plant and equipment (note 8)	(57)	(6,226)
Non-current assets transferred to provision of services (note 14)	(1,677)	(817)
Inventory recognised as an expense (note 17)	(1,862)	(5,905)
Revenue expenditure funded from capital under statute (note 26)	(217,733)	(236,484)
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 26)	265,978	266,496
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing in prior years	17,087	10,202
Statutory provision for the financing of capital investment charged against the General Fund (MRP - note 26)	5,909	2,336
Debt repayment charged against the General Fund (note 23)	1,008	916
Capital expenditure charged against the General Fund (note 26)	1,528	8,239
Capital expenditure funded by the Gainshare contribution (note 26)	12,604	9,895
Closing balance at 31 March	**141,863**	**84,266**

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	
	2023	**2022**
	£'000	£'000
Opening balance at 1 April	647	-
(Upward)/downward revaluation of investments (note 9)	513	(230)
Accumulated gains or losses on equity investments designated at fair value through other comprehensive income	(90)	877
Closing balance at 31 March	**1,070**	**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 2023 will be charged to the General Fund over the next 10 years.

	Authority and Group	
	2023	**2022**
	£'000	£'000
Opening balance at 1 April	2,077	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	(317)	(311)
Closing balance at 31 March	**1,760**	**2,077**

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	
	2023	**2022**
	£'000	£'000
Opening balance at 1 April	11,559	66,270
Remeasurements (liabilities and assets) (note 27)	(82,621)	(67,911)
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 27)	15,199	16,788
Employer's pension contributions payable in the year:		
Current year (note 27)	(3,167)	(3,588)
Closing balance at 31 March	**(59,030)**	**11,559**

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	
	2023	**2022**
	£'000	£'000
Opening balance at 1 April	1,138	1,030
Movement in the year	(148)	108
Closing balance at 31 March	**990**	**1,138**

26. 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
	2023	**2022**
	£'000	£'000
WMCA delivered capital schemes		
Midland Metro	120,851	131,077
Rail infrastructure	46,305	54,952
Key Routes network	26,102	46,721
Bus infrastructure	10,978	13,500
Land Fund	8,372	22,061
Future Transport Zone	2,392	2,624
Connected vehicles	-	613
Regional Transport Coordination Centre	4,744	4,440
Sustainable Transport	540	3,837
Digital Devices	3,997	-
Other	9,667	14,345
	233,948	294,170
Grants to local authorities	113,067	88,869
Investments in equity instruments	-	4,550
Total capital expenditure	**347,015**	**387,589**
Property, plant and equipment (note 14)	128,117	144,566
Intangible asset (note 15)	-	699
Inventories (note 17)	1,165	1,290
Investments in equity instruments (note 16)	-	4,550
REFCUS	217,733	236,484
	347,015	**387,589**
Funded by:		
Central Government grants	227,260	231,252
District/Local Enterprise Partnership (LEP) grants and contributions	12,042	9,413
3rd party contributions	26,676	25,831
Total grants and contributions	265,978	266,496
Gainshare contribution	12,604	9,895
Borrowing	68,433	111,198
	347,015	**387,589**

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	
	2023	**2022**
	£'000	£'000
Opening Capital Financing Requirement	560,573	472,555
Capital investment		
Capital programme costs funded by borrowing (note 26)	68,433	111,198
Other capital expenditure funded by borrowing - Collective Investment Fund	36,371	26,484
Sources of finance		
Minimum Revenue Provision (MRP)	(5,909)	(2,336)
Use of the Capital Receipts Reserve to finance capital expenditure (note 24)	(15,657)	(27,971)
Transferred debt repayment (note 23)	(1,008)	(916)
Capital expenditure charged to the General Fund	(1,528)	(8,239)
Capital grants received previously funded through borrowings	(17,087)	(10,202)
Closing Capital Financing Requirement	**624,188**	**560,573**
Explanation of movement in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	63,615	88,018
Increase in Capital Financing Requirement	**63,615**	**88,018**

27. 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.

Following the latest triennial valuation as at 31 March 2022 carried out by Hymans Robertson LLP, the actuaries set the Authority's employer contributions for the three years from 1 April 2023 to 1 March 2026 at a net primary rate of 9.9% of the current employees' pensionable pay. The employer's contribution for 2023/24 is estimated by the actuaries to be approximately £3.1m.

The weighted average duration of the funded obligations as at 31 March 2023 is 17 years (2022: 18 years).

Disclosures in this note are taken from the actuarial report provided by Hymans Robertson LLP.

Calculation method
The figures as at 31 March 2023 are based on the 31 March 2022 formal valuation of the fund. Membership data as at 31 March 2022 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 2023. This valuation was carried out by Hymans Robertson LLP.

Net asset/liability and pension reserve

Following the pensions valuation by the fund's actuary at 31 March 2023, the fair value of the Authority's pension plan assets outweighed the present value of the plan obligations resulting in a net defined benefit asset for the first time. IAS 19 Employee Benefits requires that, where net defined benefit asset exists, it is measured at the lower of:

- the surplus in the defined benefit plan, and
- the asset ceiling

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The calculation for the asset ceiling is expected to be received from Hymans Robertson LLP during the course of the audit (commencing on 3 July 2023) and the unaudited accounts will be adjusted for the measurement in accordance with IAS 19.

Pending the asset ceiling calculation, the net amount currently being recognised on the Balance Sheet at 31 March 2023 is a surplus of £59.030m compared to a deficit of £8.433m at 31 March 2022.

Movement in pension fund asset/liability during the year

	Authority and Group 2023 £'000	2022 £'000
Opening balance at 1 April	8,433	59,603
Employer's pension contributions payable in the year:		
Current year	(3,167)	(3,588)
Prepayment for 2022/23 and 2021/22	3,126	3,541
Post employment benefit charged to the surplus or deficit on provision of services:		
Current service cost	14,750	15,414
Past service cost	24	30
Net interest cost	425	1,344
Total cost	15,158	16,741
Remeasurements (liabilities and assets)	(82,621)	(67,911)
Closing balance at 31 March	**(59,030)**	**8,433**

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 2023 £'000	2022 £'000
Comprehensive Income and Expenditure Statement		
Cost of services		
Current service cost	14,750	15,414
Past service cost	24	30
Financing and investment income and expenditure		
Net interest cost	425	1,344
Total post employment benefit charged to the surplus or deficit on provision of services	**15,199**	**16,788**
Remeasurements (liabilities and assets)	(82,621)	(67,911)
Total post employment benefit charged/(credited) to the Comprehensive Income and Expenditure Statement	**(67,422)**	**(51,123)**
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	(15,199)	(16,788)
Actual amount charged against the General Fund Balance for pensions in the year	3,167	3,588
	(12,032)	**(13,200)**

Assets and liabilities in relation to post-employment benefits

	Authority and Group 2023 £'000	Authority and Group 2022 £'000
Present value of scheme liabilities	(243,110)	(322,787)
Present value of scheme assets	302,140	314,354
Amounts recognised as assets/(liabilities)	**59,030**	**(8,433)**

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

	Authority and Group 2023 £'000	Authority and Group 2022 £'000
Opening balance at 1 April	322,787	355,122
Current service cost	14,750	15,414
Interest cost	8,812	7,169
Change in demographic assumptions*	(2,398)	(6,868)
Change in financial assumptions	(112,997)	(13,391)
Experience (gain)/loss on defined benefit obligations	19,215	(26,422)
Contributions by scheme participants	2,409	2,134
Benefits paid	(9,492)	(10,401)
Past service costs/curtailments	24	30
Closing balance at 31 March	**243,110**	**322,787**

***** the change in demographic assumptions can be found in the valuation assumptions on page 97

Reconciliation of fair value of the scheme assets

	Authority and Group 2023 £'000	Authority and Group 2022 £'000
Opening balance at 1 April	314,354	295,519
Interest on plan assets	8,387	5,825
Administration expenses	-	-
Return on assets less interest	(13,559)	21,463
Employer contributions - current year	3,167	3,588
Employer contributions - prepayment for 2022/23 and 2021/22	(3,126)	(3,541)
Experience (gain)/loss on defined benefit assets	-	(233)
Contributions by scheme participants	2,409	2,134
Benefits paid	(9,492)	(10,401)
Closing balance at 31 March	**302,140**	**314,354**

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

Authority	2023	2023	2022	2022
	%	£'000	%	£'000
Asset				
Equities	61.7	188,578	60.6	190,639
Gilts	4.5	13,910	6.2	19,457
Other bonds	5.3	15,903	5.8	18,287
Property	7.3	21,202	7.2	22,546
Cash/liquidity	3.5	9,427	3.9	12,345
Other*	17.7	53,120	16.3	51,080
Total	**100.0**	**302,140**	**100.0**	**314,354**

***** 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.

		Authority
	2023	2022
Valuation assumptions		
Discount rate	4.8%	2.7%
Rate of salary increase	4.0%	4.3%
Rate of pension increase	3.0%	3.3%
Future life expectancies from age 65		
Retiring today:		
Males	20.3	21.1
Females	22.7	23.9
Retiring in 20 years:		
Males	22.9	22.0
Females	25.8	25.4

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 £196k (2022: £182k).

The amounts recognised in WM5G Limited's Income Statement and consolidated into the Group Comprehensive Income and Expenditure Statement are £58k (2022: £57k).

28. 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 in advance of the financial year. Credit ratings are monitored constantly through the receipt of real-time 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 2022/23 £'000	Group 2022/23 £'000	Authority 2021/22 £'000	Group 2021/22 £'000
12-month expected credit losses:				
Investments (note 16)	719,434	719,434	514,700	514,700
Cash and short-term deposits (note 19)	28,788	30,472	120,465	122,051
Pooled investment funds (note 16)	4,717	4,717	5,230	5,230
	752,939	754,623	640,395	641,981
Simplified approach:				
Trade debtors and accrued income (note 18)	93,493	94,174	42,119	46,000
Total	**846,432**	**848,797**	**682,514**	**687,981**

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)	2022/23 £'000	2021/22 £'000	2022/23 £'000	2021/22 £'000	2022/23 £'000	2021/22 £'000
Opening balance as at 1 April	3,298	3,617	-	-	3,298	3,617
Individual financial assets transferred to 12-month expected credit loss (note 9)	1,910	(319)	-	-	1,910	(319)
Individual financial assets transferred to lifetime expected credit losses	-	-	-	-	-	-
Closing balance at 31 March	**5,208**	**3,298**	**-**	**-**	**5,208**	**3,298**

Group	12-month expected credit losses		Lifetime expected credit losses - simplified		Total	
Asset class (amortised cost)	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance as at 1 April	2,952	2,425	-	-	2,952	2,425
Individual financial assets transferred to 12-month expected credit loss (note 9)	2,037	527	-	-	2,037	527
Individual financial assets transferred to lifetime expected credit losses	-	-	-	-	-	-
Closing balance at 31 March	**4,989**	**2,952**	**-**	**-**	**4,989**	**2,952**

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.

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 2022/23 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.

29. 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 2022/23	Long-term		Current		Total	
	Authority	Group	Authority	Group	Authority	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets at amortised cost						
Investments (note 16)	25,293	25,293	694,141	694,141	719,434	719,434
Long-term debtors	16,392	16,392	-	-	16,392	16,392
Short-term debtors (note 18)	-	-	93,493	94,174	93,493	94,174
Cash and cash equivalents (note 19)	-	-	28,788	30,472	28,788	30,472
Financial assets at fair value through other comprehensive income						
Investments in subsidiaries and joint ventures (note 16)	3,764	3,764	-	-	3,764	3,764
Financial assets at fair value through profit or loss						
Pooled investment funds (note 16)	4,717	4,717	-	-	4,717	4,717
Total financial assets	**50,166**	**50,166**	**816,422**	**818,787**	**866,588**	**868,953**
Financial liabilities at amortised cost						
Borrowings (note 20)	491,457	491,457	15,956	15,956	507,413	507,413
Short-term creditors (note 21)	-	-	136,436	139,393	136,436	139,393
Transferred debt (note 23)	2,561	2,561	1,175	1,175	3,736	3,736
Total financial liabilities	**494,018**	**494,018**	**153,567**	**156,524**	**647,585**	**650,542**

Comparatives 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 16)	13,443	13,443	501,257	501,257	514,700	514,700
Long-term debtors	16,159	16,159	-	-	16,159	16,159
Short-term debtors (note 18)	-	-	42,119	46,000	42,119	46,000
Cash and cash equivalents (note 19)	-	-	120,465	122,051	120,465	122,051
Financial assets at fair value through						
Investments in subsidiaries and joint ventures (note 16)	3,673	3,673	-	-	3,673	3,673
Financial assets at fair value through profit or loss						
Pooled investment funds (note 16)	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 20)	439,232	439,232	15,319	15,319	454,551	454,551
Short-term creditors (note 21)	-	-	115,065	119,687	115,065	119,687
Transferred debt (note 23)	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**

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 2022/23 £'000	Authority 2021/22 £'000
Opening balance as at 1 April	15,923	15,612
Interest credited to Financing and Investment Income and Expenditure	317	311
Closing balance at 31 March	**16,240**	**15,923**
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	2022-23					2021-22				
	Financial assets at amortised cost £'000	Financial assets at fair value through other comprehensive income £'000	Financial assets at fair value through profit or loss £'000	Financial liabilities at amortised cost £'000	Total Authority £'000	Financial assets at amortised cost £'000	Financial assets at fair value through other comprehensive income £'000	Financial assets at fair value through profit or loss £'000	Financial liabilities at amortised cost £'000	Total Authority £'000
Net (gains)/losses on financial instruments	-	(90)	513	-	423	-	877	(230)	-	647
Interest income (note 9)	(12,346)	-	-	-	(12,346)	(2,680)	-	-	-	(2,680)
Interest expense (note 9)	-	-	-	16,280	16,280	-	-	-	8,354	8,354
Net loss/(gain) for the year in the surplus or deficit on the provision of services	**(12,346)**	**(90)**	**513**	**16,280**	**4,357**	**(2,680)**	**877**	**(230)**	**8,354**	**6,321**

Group	2022-23					2021-22				
	Financial assets at amortised cost £'000	Financial assets at fair value through other comprehensive income £'000	Financial assets at fair value through profit or loss £'000	Financial liabilities at amortised cost £'000	Total Group £'000	Financial assets at amortised cost £'000	Financial assets at fair value through other comprehensive income £'000	Financial assets at fair value through profit or loss £'000	Financial liabilities at amortised cost £'000	Total Group £'000
Net (gains)/losses on financial instruments	-	(90)	513	-	423	-	877	(230)	-	647
Interest income (note 9)	(12,295)	-	-	-	(12,295)	(2,639)	-	-	-	(2,639)
Interest expense (note 9)	-	-	-	16,407	16,407	-	-	-	9,200	9,200
Net loss/(gain) for the year in the surplus or deficit on the provision of services	**(12,295)**	**(90)**	**513**	**16,407**	**4,535**	**(2,639)**	**877**	**(230)**	**9,200**	**7,208**

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 2022/23	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	719,434	719,434	719,434	719,434
Long-term debtors	N/A	carrying amount	152	152	152	152
Long-term debtors - soft loan	Level 2	Discounted contractual (or expect) cash flows at PWLB's new annuity rate	16,240	14,555	16,240	14,555
Short-term debtors	N/A	Fair value is approximated at their	93,493	93,493	94,174	94,174
Cash and cash equivalents	N/A	carrying amount	28,788	28,788	30,472	30,472
Financial assets at fair value through other comprehensive income						
Investments in subsidiaries and joint ventures	Level 3	Earnings based valuation	3,764	3,764	3,764	3,764
Financial assets at fair value through profit or loss						
Pooled investment funds	Level 1	Unadjusted quoted prices in active markets for identical shares	4,717	4,717	4,717	4,717
Total financial assets			**866,588**	**864,903**	**868,953**	**867,268**
Financial liabilities at amortised cost						
Public Works Loan Board (PWLB)	Level 2	PWLB redemption and new PWLB certain rate loan discount rates	487,848	420,291	487,848	420,291
Barclays	Level 2		10,000	9,001	10,000	9,001
UK Infrastructure Bank	Level 2		9,565	7,713	9,565	7,713
Total borrowings			**507,413**	**437,005**	**507,413**	**437,005**
Short-term creditors	N/A	Fair value is approximated at their carrying amount	136,436	136,436	139,393	139,393
Transferred debt *	Level 2	PWLB new loan rates	3,736	3,695	3,736	3,695
Total financial liabilities			**647,585**	**577,136**	**650,542**	**580,093**

Comparatives for 2021/22	Input level in fair value hierarchy	Valuation technique used to measure fair value	Authority		Group	
			Carrying amount	Fair value	Carrying amount	Fair value
			£'000	£'000	£'000	£'000
Financial assets at amortised cost						
Investments	N/A	Fair value is approximated at their	514,700	514,700	514,700	514,700
Long-term debtors	N/A	carrying amount	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	42,119	42,119	46,000	46,000
Cash and cash equivalents	N/A	carrying amount	120,465	120,465	122,051	122,051
Financial assets at fair value through other comprehensive income						
Investments in subsidiaries and	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	5,230	5,230	5,230	5,230
Total financial assets			**702,346**	**702,063**	**707,813**	**707,530**
Financial liabilities at amortised cost						
Public Works Loan Board (PWLB)	Level 2	PWLB redemption and new PWLB	434,551	464,059	434,551	464,059
Barclays	Level 2	certain rate loan discount rates	10,000	13,446	10,000	13,446
UK Infrastructure Bank	Level 2		10,000	9,032	10,000	9,032
Total borrowings			**454,551**	**486,537**	**454,551**	**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			**574,360**	**606,589**	**578,982**	**611,211**

* 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.

30. 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 as at 31 March 2023 are shown below:

	2023 £'000	2022 £'000
Land and buildings		
Less than one year	374	480
Between two and five years	786	943
More than five years	3,255	3,234
	4,415	**4,657**

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 2023 are as follows:

	2023 £'000	2022 £'000
Land and buildings		
Less than one year	222	274
Between two and five years	183	474
More than five years	1,763	1,797
	2,168	**2,545**

31. 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	442,902	13,768	445,045	901,715
Financing cash flows	65,000	(13,768)	-	51,232
Non-cash changes	(13,884)	13,884	68,726	68,726
Closing balance at 31 March	**494,018**	**13,884**	**513,771**	**1,021,673**

32. 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 £84.343m at the last triennial valuation as at 31 March 2022.

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

33. 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 2023 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 2022/23 is shown in note 12. 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 £165k (2022: £311k) in which three members have an interest
- West Midlands Growth Company Limited totalling £10.5m (2022: £7m) in which three members and one officer representation on the board as WMCA stakeholder (2022: 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.

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	
	2022/23	**2021/22**	**2022/23**	**2021/22**	**2022/23**	**2021/22**
	£'000	£'000	£'000	£'000	£'000	£'000
Constituent authorities						
Birmingham City Council	45,395	44,728	1,083	1,087	-	197
City of Wolverhampton Council	10,524	10,316	573	573	-	-
Coventry City Council	15,100	14,553	640	636	-	-
Dudley MBC	12,831	12,598	607	607	-	-
Sandwell MBC	13,097	12,866	611	611	-	-
Solihull MBC	8,656	8,476	545	545	-	-
Walsall Council	11,412	11,183	585	585	-	-
Non-constituent authorities	-	-	390	325	-	-
Total	**117,015**	**114,720**	**5,034**	**4,969**	**-**	**197**

Funding paid by the Authority to the constituent District Councils:

	Devolved Transport Funding		Economic Regeneration		Adult Education Budget	
	2022/23	**2021/22**	**2022/23**	**2021/22**	**2022/23**	**2021/22**
	£'000	£'000	£'000	£'000	£'000	£'000
Constituent authorities						
Birmingham City Council	6,254	5,165	-	31,926	10,202	10,220
City of Wolverhampton Council	4,767	4,002	-	-	3,283	3,289
Coventry City Council	6,120	5,566	40,656	61,958	5,288	5,297
Dudley MBC	6,754	5,246	-	-	1,507	1,509
Sandwell MBC	6,539	6,026	-	-	1,330	1,408
Solihull MBC	5,098	4,251	12,994	11,075	-	-
Walsall MBC	5,904	4,306	7,881	18,079	-	-
Total	**41,436**	**34,562**	**61,531**	**123,038**	**21,610**	**21,723**

Entities controlled or significantly influenced by the Authority
During the year, the Authority paid management fees of £75k (2022: £100k) and £629k (2022: £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 (2022: £41k) from the Authority. In addition, the Authority recharged expenses of £222k (2022: £201k) which the Authority paid on behalf of West Midlands Rail Limited. The Authority has also charged corporate support and professional services of £46k (2022: £55k).

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 £7.6m (2022: £3.6m) from the Authority under the terms of the Public Service Agreement. The Authority has charged corporate support and professional services of £748k (2022: £529k). The Authority has also recharged expenses of £487k (2022: £98k). Additionally, Midland Metro Limited has recharged £2.4m (2022: £3.7m) in respect of Metro network developments and enhancements to the Authority.

During the year, the Authority provided grants and services of £1.8m (2022: £982k) 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 £nil (2022: £10k).

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 2023 are as follows:

<u>Due from</u>	
Midland Metro Limited	£142k
West Midlands Rail Limited	£88k

Payment to Operators
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 £26.5m (2022: £17.6m).

34. Events after the Reporting Period

The Statement of Accounts were authorised for issue by the Audit, Risk and Assurance Committee on 4 December 2023. 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 2023, the amounts in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The Mayor of the West Midlands has formally written to the Home Secretary asking for Mayoral responsibilities to be extended to include policing. If granted, this would mean the role of the West Midlands Police and Crime Commissioner would be abolished and functions would transfer the Authority after the election in May 2024.

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 Interim Audit Findings for West Midlands Combined Authority

Year ended 31 March 2023

Contents

Your key Grant Thornton team members are:

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This Audit Findings presents the interim 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 will be presented to the Audit, Risk and Assurance Committee on 4 December 2023. A final version will be issued once all audit work is complete.

Grant Patterson

Name: Grant Patterson
For Grant Thornton UK LLP
Date: 24 November 2023

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.

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 financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

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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 Authority's financial statements give a true and fair view of the financial position of the 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 using a hybrid working pattern during July-November. Our findings are summarised on pages 6 to 22.

To date we have not identified any adjustments that impact on the Authority's reported financial position, however it is likely that a material adjustment will be required to the balance sheet, in respect of the treatment of the pension asset.

Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is substantially complete, subject to the following outstanding matters:

- Investments,
- Creditors,
- Group boundary confirmation,
- Pensions,
- Grants,
- REFCUS (Revenue Expenditure Financed from Capital Under Statute),
- Minimum Revenue Provision,
- Review of the final set of financial statements; and
- Receipt of management representation letter {see appendix G}.

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 work on the Authority's value for money (VFM) arrangements is complete and the Auditors Annual Report is a separate item on the agenda.

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 Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Authority'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 Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work. A draft of our report has been shared with Officers and is included in the papers for ARAC to comment on.

We can report that our draft conclusions are that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources but we have identified some areas for improvement that are currently being discussed with Officers.

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 both the Authority's VFM and financial statements.

Significant matters

The finance team published accounts in line with their internal timetable of 30 June 2023, however a full set of working papers were not available to support these in line with the agreed timescale for the audit visit. This caused delays in sample selection, particularly around journals, where the information provided to the audit team initially was incorrect, and this resulted in abortive audit work.

As reported in our 2021/22, given the level of grant funding the Authority receives, one of the key audit challenges faced was obtaining reasonable and appropriate audit evidence in relation to grants income and expenditure and particularly its linkage to REFCUS (Revenue Expenditure Financed from Capital Under Statute). We made recommendations and met with the finance team with the aim of having improved arrangements in place for 2022/23. Due to the late sign off of the 2021/22 financial statements and capacity constraints within the finance team the Authority was unable to make progress in this area. We worked with officers to try and find a more streamlined solution to gaining audit assurance this year, but due to the complexity of the reporting arrangements, and differing levels of understanding within the finance team, this has not been possible, and additional work has been necessary by both the finance team and the audit team to gain the levels of assurance needed. A fee variation is proposed to cover the costs of this additional work. It remains critical for the finance team to commit to simplifying the process and fully documenting this in time for the preparation of the 2023/24 financial statements.

Further information on these matters are included on page 17 in this report.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Authority for their support in working with us to conclude the 21/22 and progress towards completion of the 22/23 audit to enable a return to a more normal timetable for 2023/24.

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 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 West Midlands Combined Authority business and is risk based, and in particular included:

- An evaluation of the Authority'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 Authority's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- 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 updated our audit approach from that outlined in the original plan to include additional documentation of the payroll system following it's change in the current financial year. Given that payroll accounts for less than 10% of the entity's total expenditure, we have not identified this as a significant risk.

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 04 12 2023, as detailed in Appendix H. These outstanding items include:

- Investments,
- Creditors,
- Group boundary confirmation,
- Pensions,
- Grants,
- REFCUS,
- Minimum Revenue Provision,
- Review of the final set of financial statements; and
- Receipt of management representation letter {see appendix G}.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The delays to the 2021/22 financial statements audit have had a knock-on impact on the audit of the 2022/23 financial statements. With the same key people supporting finalisation of 2021/22 and preparation of 2002/23 the capacity in the finance team to enable key changes around grant income to be made was significantly impaired.

In addition, the quality of working papers and evidence provided to correctly recognise and accounts for, and then support, transactions appears to have declined from prior years, resulting in errors being identified, and further extended testing needing to be undertaken to gain the necessary assurance. As a result of fee variation is proposed.

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 set out in this table our determination of materiality for West Midlands Combined Authority and group. Following receipt of the draft financial statements we have determined not to amend any of the materialities set at the planning stage of our audit.

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	Group Amount (£)	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	£9.3m	£9.2m	Benchmarked to approximately 1.4% of the Authority's gross expenditure in the prior year at both the group and the Authority level. We have determined this to be the level of misstatement which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Performance materiality	£6.5m	£6.4m	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 challenges experienced with timeliness of working papers and the complexity of the audit trail.
Trivial matters	£460k	£460k	This is determined by applying 5% to headline materiality.
Materiality for senior officer remuneration	£23,800	£23,800	We believe these disclosures are of specific interest to the reader of the accounts. We have applied our headline materiality percentage of 1.4% to the total senior officer remuneration value from the prior year.

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	Commentary	Relevant to Authority and/or Group
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 (UK) 240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could 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 planned as the presumed risk was rebutted. We have conducted general audit procedures on the Authority's revenue streams and no matters have arisen from that which indicate we need to revisit our rebuttal.	Risk relates to both the Group and the Authority.
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 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 did not consider this to be a significant risk for West Midlands Combined Authority. No specific work was planned as the presumed risk has been rebutted. We have conducted general audit procedures on the Authority's expenditure streams and no matters have arisen from that which indicate we need to revisit our rebuttal.	Risk relates to both the Group and the Authority.

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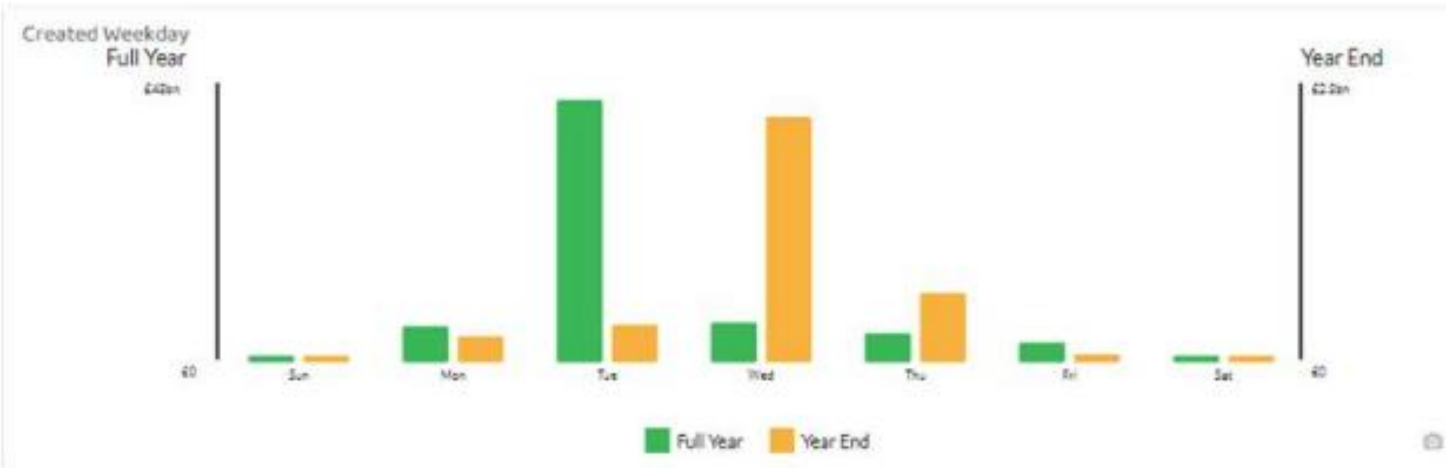
2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Authority and/or Group
Management over-ride of controls	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. We: • 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 made 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. The Authority processed 74,192 journals each containing multiple lines of data in respect of the year ending 31 March 2023, with a value in excess of £69 billion. 5.8% of these by number occur at year end and they make up nearly 6% 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 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.	Risk relates to both the Group and the Authority.



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2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Authority and/or Group
Management over-ride of controls (continued)	Our testing of estimates, judgements and journals has not identified any evidence of management override of controls. However, the initial data provided to the audit team was incorrect, raising questions relating to the control environment and how the system operated. This resulted in the audit team re-evaluating the risk associated with journals and raising the risk, which resulted in additional testing. Our work on journals to date has not identified any errors, however we have identified a number of areas where the control environment could be strengthened: • The system documentation provided highlighted that back posting of journals was not possible, however we identified cases where this had occurred. • There were unusual transaction dates in the journal transactions, with dates both before and after the financial year. • There was a lack of understanding in the finance team on the transactions types that were manual journals and automated journals. • There are a large number of superusers that have posted transactions in the year • Cashbook journals have been posted with the incorrect GL transaction type. A recommendation has been included in the action plan.	Risk relates to both the Group and the Authority.
Valuation of the pension fund net liability.	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 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. We: • 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; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and • requested assurances from the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data (including the 2022 triennial audit data this year); contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	**Risk relates to the Authority only.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Authority and/or Group
Valuation of the pension fund net liability (continued)	We have completed all of our work in this area, with the exception of: • gaining assurance from the pension fund auditor. The pension fund auditor has confirmed that their assurance letters are likely to be issued within the next two weeks. • work in relation to the accounting treatment of the pension fund asset under *IFRIC 14 - IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* This is the first time for the sector that some local authorities find themselves with a surplus on the pension fund following the actuarial valuation, and therefore need to comply with IFRIC 14. The draft financial statements, recognised that not all information was available from the actuary at the time of financial statement completion to comply with IFRIC 14, and therefore the draft accounts as published would need to be amended. The application of IFRIC 14 is a sector wide issue and is one where we have worked closely with other stakeholders to ensure a pragmatic and consistent view of application is taken. CIPFA issued guidance in this area on 21 November 2023. Based on early work, it is unlikely that the Authority will be required to recognise a net pension asset on their balance sheet, but this work remains ongoing.	Risk relates to the Authority only.

2. Financial Statements: Key findings arising from the group audit

On receipt of the draft financial statements, the audit team identified that there was an immaterial difference between the single entity financial statements and the group financial statements. As a result, we have not sought assurances from the component auditors on the financial statements as consolidated. To confirm the validity of this assessment, we have undertaken work on the group boundary and reviewed the consolidation adjustments for reasonableness. This work is not yet complete, with information outstanding from the finance team. We will provide a verbal update at the committee.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £4.991m	The majority of the value associated with Land and Buildings, as disclosed in Note 14 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 this 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 14 is adequate.	Light purple
Inventories - £7.77m	The Land Fund is a capital grant made to the Authority for it to use to assembly 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 full 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. Given this 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.	Light purple

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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**

Net pension liability (surplus) – £59m

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Summary of management's approach

For the first time, the Authority, like many similar local authorities have recorded a surplus position on its balance sheet. This brings the Authority into the scope of IFRIC 14.

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 valuation was completed in March 2022. A roll forward approach is used in intervening periods, which utilises key assumptions, such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the pension fund asset, small changes in assumptions can result in significant valuation movements.

Audit Comments

- 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 an auditor's 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. Whilst no specific range was given for Hyman Robertson's Life expectancy assumptions we have compared them to other actuaries. For non-pensioners the estimates are consistent with other actuaries. For pensioners (both male and female) the estimates are towards the lower end used by other actuaries but are not so far out of line that they are of concern.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.75%	4.75%	
Pension increase rate	3%	2.95% - 3%	
Salary growth	4%	3.5% - 5.5%	
Life expectancy – Males retiring today	20.3 years	Not given	
Life expectancy – Males retiring in 20 years	22.9 years	Not given	
Life expectancy – Females retiring today	22.7 years	Not given	
Life expectancy – Females in 20 years	25.8 years	Not given	

- 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.

Assessment

Light purple

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 - £5.909m	The Authority 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 £5.909m, an increase of £3.6m from 2021/22.	This has been an area of discussion with management, and our findings are reported on page 18.	Light purple We remain of the view that not charging MRP on loans to third parties is inconsistent with the current MRP guidance but we are assured that the Authority has acted prudently and the current differences are not material (see page 18 for details)

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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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating		
IT system	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure
Business World	ITGC assessment design and implementation effectiveness only	🟢	🟢	🟢	🟢
Sageline	ITGC assessment design, implementation and operating effectiveness	🟢	🟢	🟢	🟢

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

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.	• The key recommendation last year in relation to the complexity of the audit trail and working papers, particularly with regard to grant income, has not been actioned due to resource constraints in the finance team following the late audit sign off of the 2021/22 financial statements and the same personnel being required to support the 2022/23 closedown as well as looking to improve processes. We worked with officers to try and find a more streamlined solution to gaining audit assurance this year, but due to the complexity of the reporting arrangements, and differing levels of understanding within the finance team, this has not been possible, and additional work has been necessary by both the finance team and the audit team to gain the levels of assurance needed. It remains critical for the finance team to commit to simplifying the process and fully documenting this in time for the preparation of the 2023/24 financial statements. Currently, detailed understanding of the system appears to rest with one key individual, which also presents a risk to the Authority. • Difficulties were experienced with picking the samples for both debtor and creditor balances, with initial listings not being provided at transactional level. Further breakdowns were requested prior to sampling being able to take place. • The Authority has invested in its finance team, but quality control arrangements are focussed on one or two people which means that there remain bottlenecks in the process at the Authority for providing responses to sample queries, with information requested taking a number of weeks to be returned to the audit team. Progress has been reported to the Deputy s151 officer on at least a weekly basis and escalated to the s151 as required. • While generally, the evidence returned to the audit team has been of an appropriate quality, some key samples, in particular, journal evidence, has needed to be returned in full due to the quality of the evidence provided.	To enable the audit to be completed in a shorter timescale a full review of the process for 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/or work arounds. Supporting information for balances within the financial statements ideally needs to enable a direct drill down to transaction level for all balances, specifically grant income and REFCUS. Audit has become increasingly complex, as has the nature of the transactions that the Authority are involved with. 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. Encouraging greater ownership of the financial accounts process outside of the finance team can help to ensure information is provided right first time in a reasonable timescale, without the need for an extensive quality control process. **Management response** We are committed to simplifying the process for compiling the financial statements with a focus on using the ledger to produce all financial statements. We were able to simplify the compilation of the Comprehensive Income and Expenditure Statement ahead of compiling the 2022/23 statements and will now focus on all other balances including grant income and REFCUS. We are also committed to raising awareness and encouraging greater ownership of the financial accounts process outside of the finance team to ensure accurate information is provided right first time and within a reasonable timescale. We will be building further capacity within the finance team to ensure that this important work is resourced effectively.

2. Financial Statements: matters discussed with management (cont'd)

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Significant matter	Commentary	Auditor view and management response
Calculation of Minimum Revenue Provision (MRP)	During the audit of the 2021/22 financial statements, we concluded that the MRP policy that the Authority was following was not in accordance with the current statutory guidance, as MRP was not being made for loans to third parties on the basis that the principal repayments would meet the liability. As at the 31 March 2022, the difference the audit team estimated was not material with a potential undercharge of £8.3m. In reviewing the position this year, the audit team has confirmed that the MRP policy in place for 2022/23 at the Authority remains unchanged from the prior year, and therefore the MRP policy remains non-compliant with the current statutory guidance. Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in statutory guidance, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans alongside Expected Credit Loss estimates. Government has not yet issued a full response to the consultation but the proposals are consistent with the Authority's current policy. The audit team and the Authority have estimated the amount of MRP undercharged on the capital loans based upon the loan repayment periods would be £9.6m, which is above headline material. However, the Authority also notes that regulation 25(1)(b) also permits it to calculate MRP based upon the useful life of the assets in relation to which the third party expenditure is incurred. This would reduce the MRP charge to c£1.5m, which is below our audit materiality. We have challenged the reasoning of management as to why they consider it prudent to not provide any MRP on these capital loans. They have provided evidence that all loans are currently being paid in line with the agreed terms, there is a first charge security in place, and there is an expected credit loss provision of £5m in the financial statements, which means that there is limited risk that the Authority would not be able to service the loans, which is what the MRP is designed to do. The guidance also notes that authorities must always have regard to it, but having done so, may in some cases consider that a more individually designed MRP approach is justified.	From our discussions and the evidence provided we are comfortable that the Authority have considered prudence when setting its MRP policy. Whilst we remain of the view that not charging MRP on these loans is inconsistent with the current guidance we are assured that the Authority have acted prudently and the current differences are not material. We recommend that the position is regularised once the guidance is updated. **Management response** We have provided evidence to provide assurance that all relevant loans are being paid in line with the agreed terms and highlighted the expected credit loss provision of £5m recorded in the accounts as at 31 March 2023. We have also confirmed that we hold first charge on all relevant loans to further demonstrate that our approach is prudent. We are therefore comfortable that we have provided sufficient MRP and that the current differences are not material. We confirm that we will regularise our position once the statutory guidance is updated.
Errors identified in the creditor testing	Using a statistical sampling methodology, we picked a sample of 38 creditor payments for testing. From that initial sample of 38 we identified 10 items that were not genuine creditors. These could be grouped as follows; • One where the balance had been accrued for despite the invoice being paid • Four items that related to a delay in processing credit card payments • Five items that appear to be duplicate payments, refunds or returned payments. Given the volume and value of the fails, the initial sample did not provide sufficient assurance that the creditor balance isn't materially misstated and therefore further work was required. The Authority have not been able to provide sufficient evidence that the errors are isolated or have characteristics that there is a suitable sub population to test, therefore a further sample of 38 items has been selected. Work is still in progress on this additional sample, however, further fails have been identified.	At the time of writing this report we are still awaiting information from the finance team in order to complete the testing and evaluate the errors. Based on the timeline agreed for this evidence to be provided we should be in a position to conclude on this by the time of the committee meeting and will provide a verbal update. **Management response** At the time of writing we have completed the majority of the work required on the additional sample of 38 items and will respond accordingly once the audit team has formed a view on the accuracy of the creditor balance.

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.

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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 issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. We have identified three councillors where an up-to-date annual return had not been provided. While we are aware that the Code requires only changes to be reported on an annual basis, it is good practice that an annual confirmation is made by all Councillors and senior officers. We have included a recommendation in the action plan in relation to this.
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, equal pay and MRP which is set out at Appendix G.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Authority's bank, investments and loan counterparties. This permission was granted and the requests were sent. We are still awaiting a number of confirmations, and we have asked management to chase the institutions where these are outstanding, before we undertake the necessary alternative procedures.
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.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. As highlighted previously, we have discussed the accounts production process and quality of the supporting working papers with management and have made a recommendation to improve these for future years.

2. Financial Statements: other communication requirements

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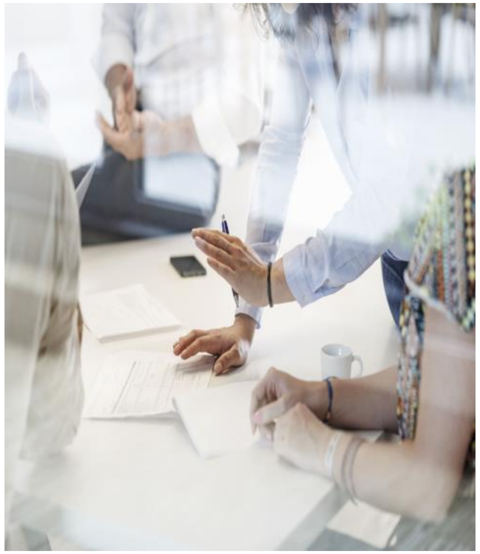
Our responsibility

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. We identified one inconsistency on the staffing analysis table within the narrative report, and officers have agreed to amend for this in the final set of financial statements. We plan to issue an unmodified opinion in this respect – refer to Appendix H
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 significant weaknesses. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. Work is not required as the Authority does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of West Midlands Combined Authority in the audit report, as detailed in Appendix H.



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3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

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.

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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 completed our VFM work. A draft of our report has been shared with Officers and is included in these papers for ARAC to comment.

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 can report that our draft conclusions are that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources but we have identified some areas for improvement that are currently being discussed with Officers.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you.

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 2022/23 financials statements will be the 7th year of association for the engagement lead. PSAA have granted Grant Patterson an extension for the 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 E.

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 Grant Thornton International Transparency report 2023.

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 West Midlands Combined Authority. The following non-audit services were identified 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			
Review of bus and light rail operator grant applications for the DfT. One of the submissions is for Midland Metro via the Combined Authority.	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.

A Grant Thornton team separate to the audit team will prepare an analysis of the LRRG paid to West Midlands Combined Authority (WMCA) and its wholly-owned subsidiary Midland Metro Limited (MML) which operates the Midland Metro network. The analysis will determine whether further grant is payable to WMCA and onto MML or whether grant needs to be reclaimed.

We recognise that as WMCA's auditor there is a potential for perceptions of a conflict of interest in undertaking the work i.e. if it identifies areas that should have been picked up through audit work on the Authority's accounts. To mitigate this risk, and following discussions with the Authority's Finance Director, we have established a tripartite agreement which permits the report prepared for the DfT to be shared directly with the Authority. We are therefore satisfied that our independence is maintained.

These services are consistent with the West Midlands Combined Authority policy on the allotment of non-audit work to your auditors. All services have been approved by ARAC. None of the services provided are subject to contingent fees.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff that would exceed the threshold set in the Ethical Standard.

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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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified five recommendations for the Authority 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 2023/24 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
High	Complexity of the audit trail and working papers to support the financial statements.	A full review of 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. **Management response** We are committed to simplifying the process for compiling the financial statements with a focus on using the ledger to produce all financial statements. We were able to simplify the compilation of the Comprehensive Income and Expenditure Statement ahead of compiling the 2022/23 statements and will now focus on all other balances including grant income and REFCUS to ensure reduced reliance on intermediate spreadsheets and work arounds.
High	The system for the management and monitoring of grant income is complex, and not well understood by all members of the finance team. There is a high degree of reliance on spreadsheets, which work well for the management accounts, but do not provide sufficient assurance for the financial statements. There is a risk, that knowledge is concentrated with one or two key members of staff, and this provides little resilience on such an important area of the funding for the Authority.	The system for management and monitoring of grant income, should be reviewed and simplified. As a minimum the existing system should be clearly documented. Further members of the finance team should be identified to gain an understanding of the processes and how these translate into the entries within the financial statements. **Management response** We are committed to simplifying the management and monitoring of grant income and documenting the new process. A grants working group comprising colleagues from across the Finance and Business Hub will resume its important work in December 2023 following completion of the financial statements audit. We are also strengthening resource in the finance team to ensure that all audit findings recommendations are implemented as quickly as possible.
High	Working papers in key areas were not of the quality required, resulting in the need for a number of clarification and follow up queries and additional time being needed on the audit. While quality control arrangements were in place, they often created bottlenecks in the provision of audit evidence, and this did not always reduce the number of queries returned.	Training should be provided to all finance staff on what constitutes appropriate audit evidence for the auditor. Both the training provided, and the closedown plan should emphasise the importance of officers producing sufficient working papers to support year end transactions during closedown. **Management response** We will ensure that all staff involved in the audit process receive training on what constitutes appropriate evidence to ensure the evidence provided is right first time and bottlenecks are eliminated.

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Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	As part of our review of journal transactions we identified a number of areas where the control environment could be strengthened.	The control environment in relation to journals should be reviewed and appropriately documented, so there is a clear understanding of the system. The review should include the number of people that have 'superuser' access to post journals. **Management response** The journals process will be reviewed and documented ahead of preparation of the financial statements for 2023/24.
Low	We have identified three councillors where an up-to-date annual return had not been provided.	While we are aware that the Code requires only changes to be reported on an annual basis, it is good practice that an annual confirmation is made by all Councillors and senior officers. **Management response** We confirm that annual confirmation will be sought from all Councillors and senior officers going forward.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of West Midlands Combined Authority 2021/22 financial statements, which resulted in 6 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

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. 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.	Some progress has been made in this area around income and expenditure transactions, however more work is needed to simplify the process in relation to accounting for grants.
✓	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.	Appropriate working papers were provided as part of the planning of the audit.
✓	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.	Officers reviewed the governance around senior management expense claims and confirmed that these are routinely authorised by a different member of the Strategic Leadership Team. Our testing in this area identified no issues.
In progress (see page 18)	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 who consider there to be an undercharge of £8.3m on MRP.	No changes have been made to either the Authority's accounting policy, or the statutory guidance. In conjunction with the Authority we have quantified the undercharge this year as being in the range £1.5m to £9.6m dependent upon the methodology used. Management remain comfortable that they have provided sufficient MRP, and will continue to review this as part of the medium term financial planning. From our discussions and the evidence provided we are comfortable that the Authority have considered prudence when setting its MRP policy. We recommend that the position is regularised once the guidance is updated (see page 18).

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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.	Officers have prepared a paper on the treatment of the loan in the 2023/24 financial statements.
✓	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.	Some duplication has been removed; however, the document remains very long when compared to others, potentially making this less accessible to a reader of the accounts. The report is compliant, and the length of the report is a choice for the Authority.

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Assessment

✓ Action completed

X Not yet addressed

D. 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

We have not identified any adjusted misstatements that impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

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/issue/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.	✓
Note 34 - Events after the reporting period	The Mayor has formally written to the Home Secretary asking for his responsibilities to be extended to include policing. If granted, this would mean the role of police and crime commissioner would be abolished and functions would transfer into the Authority after the election in May 2024. Given the likely impact on the Authority and the financial statements in future years, some additional narrative should be added to this note.	
Note 19 - Cash and Cash equivalents	Our requests for third party confirmation identified a balance on a Lloyds bank account that had not been disclosed. The amount was trivial from an audit perspective, and had arisen as the account had been kept open to avoid a maturity/redemption fee. Seldom used bank accounts can present a risk, and arrangements should be put in place to make sure these are regularly monitored for activity.	

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D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The ARAC 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	Impact on general fund £'000	Reason for not adjusting
Our testing of debtors has identified that items have been over accrued.	1,630	(1,630)	1,630	(1,630)	Not material and a projected error
Overall impact	£1,630	(£1,630)	£1,630	(£1,630)	

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 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Expenditure on midland metro projects of £1.63m that has been incorrectly capitalised	1,630	(1,630)	1,630	1,630	Not material quantitatively or qualitatively.
A BACs run was processed on 30/03/2022 for £1.339m. 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	Nil	Not material quantitatively or qualitatively. Management do not agree that this is an error
Overall impact	£1,630	(£1,630)	£1,630	£1,630	

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	As per audit plan (£) 2021/22	Proposed fee(£) 2021/22	As per audit plan (£) 2022/23	Proposed fee (£) 2022/23	Comments
Scale fee	35,805	35,805	49,555	49,555	Scale fee increase for complexity and on-going audit quality requirements and inflation
Group Audit	6,875	6,875	6,875	6,875	
Raising the bar/regulatory factors	3,125	3,125	0		Merged within revised scale fee
Enhanced audit procedures for Net Pension Liability	3,125	3,125	0		Merged within revised scale fee
Increased audit requirements of PPE and accounting standards	625	625	0		Merged within revised scale fee
Additional work on Value for Money under the new NAO Code	15,000	15,000	15,000	15,000	
Increased audit requirements of ISA 540	1,800	1,800	1,800	1,800	
Increased Audit Requirements for Management Override of Controls (Journals)	2,000	2,000	2,000	2,000	
Increased Audit Requirements of ISA 315	0	0	1,000	1,000	
Increased requirements of Payroll Change of Circumstances	0	0	500	500	
FRC response – additional review, EQCR or hot review	3,000	3,000	0	TBC	Estimate for 22/23 audit plan, however subject to discussions with management. Variation will be needed for additional work on MRP
Enhanced audit procedures for infrastructure	2,500	2,500	0	0	Estimate for 22/23 audit plan, however subject to discussions with management.
Local Risk Factors – Grants and Audit trail	2,925	2,925	2,500	TBC	Estimate for 22/23 audit plan, however subject to discussions with management. Additional time will be needed above that already estimated
Pension valuation and revised IAS 19		6,000	0	0	As notified in letter dated 7 June 2023

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	As per audit plan (£) 2021/22	Proposed fee(£) 2021/22	As per audit plan (£) 2022/23	Proposed fee (£) 2022/23	Comments
Additional audit time for extended testing on debtors and creditors	0	0	0	TBC	Additional testing was undertaken on debtors following four errors being identified in the original sample. An extended sample was selected and this work has concluded, resulting in an extrapolated error of £1.6m. As outlined on page 19, following errors in the initial sample we have extended our testing, and that work remains in progress.
Additional audit time for extended testing on journals	0	0	0	TBC	As reported on page 10 initial data provided to the audit team was incorrect, raising questions relating to the control environment and how the system operated. This resulted in the audit team re-evaluating the risk associated with journals and raising the risk, which resulted in additional testing.
Additional work on IFRIC 14	0	0	0	TBC	This is the first time that IFRIC 14 has applied to local government bodies, and therefore additional procedures have been required.
Total proposed audit fees for variations and local risk factors (excluding VAT)	76,780	82,780	79,230	TBC	

All variations to the scale fee will need to be approved by PSAA.

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	£0	£0
Non- Audit related services	£5,000	£5,000
Total non-audit fees (excluding VAT)	**£5,000**	**£5,000**

The fees reconcile to the financial statements.

None of the above services were provided on a contingent fee basis

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

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Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

West Midlands Combined Authority
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of West Midlands Combined Authority and its subsidiary undertaking[s], [insert name/s of consolidated entities] for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Authority financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022/23 ("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. During the year we evaluated our estimation process for [add estimation] and the following change/s to estimation process was/were made[…] 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

G. 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 immaterial to the results of the Authority and its financial position. 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 [X] 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.

xvii. We are satisfied that Authority's policy on the Minimum Revenue Provision (MRP) in respect of loans to third parties has had due regard to the statutory guidance and is prudent within the requirements of the statutory guidance.

xviii. We have considered whether the Authority is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that:

  a. The Authority currently only has three live employment tribunal claims for equal pay, which are significantly below materiality. We are not aware of any further equal pay claims which have not yet been submitted.

  b. The Authority has a job evaluation process in place called Gauge. This is based on the National Joint Council for Local Government's Job Evaluation Scheme which ensures that work of equal value is allocated to the same salary banding and progression is determined by performance. The process and scheme are regularly updated to comply with equal pay legislation.

  c. We do not tend to have the type of roles that have a set allocation of work each day, to be completed in a set time, which may result in the individual leaving once the tasks are finished.

  d. The Authority offers flexible working; therefore overtime claims are minimal and in general will only be submitted by employees on fixed rosters if there is an occasion to cover absence or something similar.

Information Provided

xviii. 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.

G. Management Letter of Representation

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 ARAC at its meeting on 4 December 2023.

H. 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 2023, 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 2022/23.

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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 2023 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 2022/23; 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 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 group and the Authority'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 2022/23 that the Authority's 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 2022) 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.

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.

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 and the group's ability to continue as a going

H. Audit opinion

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 Responsible Finance Officer's 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 Statement of Accounts, other than the financial statements and our auditor's report thereon. The Responsible Finance Officer is responsible for the other information. 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.

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 themselves. 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.

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, 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.

Responsibilities of the Authority and the Responsible Finance Officer

As explained more fully in the Statement of Responsibilities [set out on page 27], 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 2022/23, 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.

H. Audit opinion

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 they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003 and the Local Government Act 1972.

We enquired of management 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 management, 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 management's 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:

- 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 indicated that there is not a legitimate reason for posting a journal.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management 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, and
- 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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to defined benefit pensions liability. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

H. Audit opinion

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.

- 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 in which the group and Authority operates
- 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.

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.

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

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 2023.

We have nothing to report in respect of the above matter.

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.

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 January 2023. 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.

H. Audit opinion

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 – Audit certificate

We certify that we have completed the audit of West Midlands Combined Authority for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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 44 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.

Signature:

Name Grant Patterson Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date:

I. Audit letter in respect of delayed VFM work

Mr M Smith
Chair of Audit, Risk and Assurance Committee
West Midlands Combined Authority
16 Summer Lance
Birmingham
B19 3SD

Dear Mark

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 can 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 31 December 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Grant Patterson
Engagement Lead and Key Audit Partner
For and on behalf of Grant Thornton UK LLP

Grant Thornton

Auditor's Draft Annual Report on West Midlands Combined Authority

2022/23

28 November 2023

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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for money arrangements and key recommendations

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

West Midlands Combined Authority ('the Combined Authority') is entering an unprecedented period of opportunity and growth under its new 'trailblazer' devo deal and other investment, including from the revised HS2 programme. Alongside this comes some heightened risks that will need to be managed including some financial fragility among the Combined Authority's member Councils and particularly Birmingham City Council.

As auditors we are required to report their commentary on the Combined Authority's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. Each year we build upon our knowledge and understanding of the Combined Authority and as part of our work, we considered whether there were any risks of significant weakness in the Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our conclusions are summarised in the table below. The number of improvement recommendations has increased year on year, the majority being in the governance and 3Es criteria. Overall, this is not indicative of a deterioration arrangements but more a reflection that the size and complexity of the Authority continues to grow as government channels more funding through it and therefore these need to continue to adapt and evolve to meet the new challenges and requirements. Our recommendations aim to assist in the process. This will be especially so under the proposed Single Settlement agreement, where for the first time, a region will be treated as if it were a government department, enabling the region to prioritise, target and decide how funding is spent in key areas from the next spending review onwards.

Criteria	2021/22 Auditor Judgment	2022/23 Auditor Judgment
Financial sustainability	No significant weaknesses in arrangements identified and no improvement recommendations made	No significant weakness identified but one improvement recommendation raised
Governance	No significant weakness identified but one improvement recommendation rolled forward from 2020/21	No significant weakness identified but four improvement recommendations raised
Improving economy, efficiency and effectiveness	No significant weakness identified but one improvement recommendation raised	No significant weakness identified but three improvement recommendations raised

- No significant weaknesses identified or improvement recommendation made.
- No significant weaknesses identified, but improvement recommendations made.
- Significant weaknesses identified and key recommendations made.

Executive summary

Financial sustainability

The Combined Authority exhibited strong financial performance in 2022/23, finishing the year with a positive £2.8m variance to budget. The Combined Authority is forecasting a break-even year-end position for 2023/24. The Authority was able to replenish reserves during 2022/23 through transfers of the surplus to reserves, although the reserves level is low compared to net revenue spend and we have raised a recommendation in this regard.

Governance

During 2022/23, the Combined Authority had adequate risk management arrangements in place, guided by the Strategic Risk Management Framework. We have raised an improvement recommendation regarding the presentation of the strategic risk register. The Combined Authority has an adequate and effective internal audit function to provide opinions on the adequacy and effectiveness of the Authority's governance, risk management, and control processes. We have raised a recommendation regarding the need to update the Code of Conduct. The Audit, Risk and Assurance Committee (ARAC) at the Combined Authority provides an independent and high-level focus on the adequacy of governance, risk, and control arrangements. We have raised recommendations regarding the membership of the ARAC.

Improving economy, efficiency and effectiveness

The Combined Authority has delivered several successes in 2022/23, most notably its contribution to the delivery of the Commonwealth Games. During the 2022-23 financial year, the performance monitoring system has been updated to better connect reporting of performance and finances. The organisation is in the process of gearing up or the challenge. The Authority's Plan for Growth, Investment Prospectus, Net Zero Five Year Plan, and the new Local Transport Plan demonstrate its readiness to drive change. The Combined Authority does not have a formal procurement strategy in place and there is a lack of reporting of procurement performance to committee level, both of which we have raised recommendations in relation to.

Use of auditor's powers

We bring the following matters to your attention:

	2022/23
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not make an application for judicial review.

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

All Combined Authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Authority's responsibilities are set out in Appendix A.

Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Authority can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Authority makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Authority makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Authority delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Authority's arrangements in each of these three areas, is set out on pages 7 to 22.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Board and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Risk and Assurance Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Authority's Annual Governance Statement and other publications

Financial sustainability

We considered how the Authority:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

The Combined Authority exhibited strong financial performance in 2022/23, finishing the year with a positive £2.8m variance to budget and is forecasting a break-even year-end position for 2023/24, subject to a cost saving within the Transport division along with additional funding being secured alongside the trailblazer devolution deal, announced in March 2023. A special feature of the devolution deal includes a Single Settlement agreement, where for the first time, a region will be treated as if it were a government department, enabling the region to prioritise, target and decide how funding is spent in key areas from the next spending review onwards. The Authority was able to replenish reserves during 2022/23 through transfers of the surplus to reserves, although the reserves level is low compared to net revenue spend and we have raised a recommendation in this regard.

2022/23 financial performance

As of the end of March 2023, the financial position of the Mayoral Office was generally consistent with the budget. The final financial result for the Combined Authority for 2022/23 was better than expected, with a positive variance of £2.8m from the budget. The favourable variance has been realised through savings in the original concessions budget arising from reduced patronage and fare levels within Transport, as well as there being £1.1m of savings within Accessible Transport due to reduced contractual payments and lower costs against budget due to a reduction in service demand. These savings are in spite of the negative variance of £1.9m within the Metro Services budget, due to a rise in Midlands Metro Limited (MML) operating costs of £4.2m during the year. This cost increase was, however, somewhat mitigated by the receipt of grant income from the Local Transport Fund and savings on insurance premiums.

The Portfolio budgets show a positive variance of £1.1m compared to budget, due to savings resulting from unfilled staff positions and lower-than-budgeted external advisory expenses.

£000's	Actual	Budget	variance
Total Funding	375,277	352,833	22,444
Total Expenditure	369,573	352,833	(16,740)
Net Expenditure (before earmarked reserves)	**5,704**	-	**5,704**
Transfer to earmarked reserve (2023/24) Capital Pressures	2,400	-	(2,400)
Transfer to earmarked reserve (2023/24) Transport Events	500	-	(500)
Net Expenditure (after transfers to earmarked reserves)	**2,804**	-	**2,804**
Transport	1,697	-	2
Portfolios	1,107	-	1,107
Investment Programme	-	-	-
Mayoral Office	-	-	-
Total Surplus / (Deficit)	**2,804**	-	**2,804**

Source: 2022/23 Outturn Report
Table 1: 2022/23 Outturn

Financial sustainability (continued)

The reported outturn of a £2.8m surplus for the Combined Authority includes the use of all budgeted reserves for both the Transport and Portfolios, as well as proposed appropriations to earmarked reserves, totalling £21.4m net. The appropriations are a precautionary measure for risk mitigation and to provide additional financial resilience. The surplus has been transferred to the Authority's General Reserves, resulting in a remaining unearmarked general fund balance of £4.4m as of 31 March 2023.

The transfers to reserves have been supported through savings ,including Concessions savings of £11.5m and unutilised grant funding from the current year, which have been transferred to transport reserves as a measure to safeguard against potential future risks relating to the transport network. The WMCA Board had previously approved the transfer of Concessions savings in support of the 2023/24 Transport Budget. Additionally, £4.8m has been set aside as a contingency for capital pressures, of which £2.4m was already reported in the Financial Monitoring Report to the Board in January. There have been other transfers to reserves amounting to £1.9m, with £1m earmarked to fund deferred activity in 2023/24. An Enabling Services surplus of £2.7m has arisen from a robust Treasury management strategy and interest rate changes on investment income, but this surplus is subject to market conditions and is not guaranteed to continue. Finally, £0.5m has been allocated for the funding of upcoming Transport events, which was already reported in the January report for the WMCA Board.

2023/24 budget and performance

The Authority approved a balanced budget during its meeting on 10 February 2023, where it was clarified that the figures provided were only indicative and would be revised once there was clarity on the 2022/23 outturn position. This update has now taken place, and the capital budgets have been re-phased to reflect the outturn position, capital financing pressures, new grants of £17.7m received by the Authority, as well as resource capacity and practical delivery expectations.

The capital budget for 2023/24 is £591.9m, which is £213.3m lower than the indicative capital budget reported at the February meeting, but £246.7m higher than the 2022/23 outturn. Notably, the main increases from the outturn position are seen in the Investment Programme (£107.3m), City Region Sustainable Transport Settlement (CRSTS) (£89.2m), and Housing (£47.9m).

As of this stage in the financial year, there are no significant variances to report. However, the Authority remains vigilant in monitoring risks, particularly those related to the national economic outlook, including pay and price inflation and global supply issues. Additionally, there are ongoing revenue risks associated with the West Midlands transport network, estimated to be around £30m. Like last year, these risks are being closely monitored, and any updates on the emerging funding for the region, along with their implications, will be reported in each financial report throughout the year. The WMCA also reports on any mitigations taken to reduce or manage these risks.

The medium term

The Medium Term Financial Plan (MTFP) was first presented to the WMCA Board in May 2022. It was then revised during the summer, with input from the Mayor, Portfolio Leaders, and Constituent Authorities. The most recent version was presented to the WMCA Board in October 2022 and indicates that there are significant funding gaps from years 2024/25 to 2028/29 (£36.2m rising to £100.1m – see Table on next page). The Authority is also planning to use £9.7m of Earmarked reserves of £346m to meet the £12m shortfall in the 2023/24 budget.

Additionally, the proposed funding solutions to close the gap include a 5% increase in Transport Levy, to support Transport operations, cash-flat Member contributions, one-off utilisation of reserves, and the use of the 2023/24 Business Rates Growth share to support the budgetary position. In addition, WMCA pledged to achieve £3m of efficiency savings within its Transport functions. This funding solution acknowledges that constituent authorities were grappling with significant budget pressures and funding challenges, which prevented them from considerably increasing their contributions.

WMCA's officers have been collaborating with the UK government to secure all potential sources of additional funding, including the funds secured through the trailblazer devolution deal. Per the MTFP, the goal is to find a one-year funding solution that will achieve a balanced budget for 2023/24. However, financial pressure is expected in the medium term, with a range of £36.2m in 2024/25 to £100.1m by 2028/29 which the Combined Authority was addressing subject to negotiations with the Government.

The latest update regarding funding, discussed at the meeting with the Mayor and Portfolio Leaders in November 2023, relates to the Combined Authority's securing of an additional £250m revenue funding for 5 years for 'Transport Network Stabilisation'.

This was announced by HMG on 4 October as part of the £36bn Network North plan following the cancellation of the northern leg of HS2. WMCA officers are in dialogue with HMG officials on the precise requirements for the funding draw down and we note that HMG require these funds will need to deliver Network improvements rather than plug existing funding pressures.

Financial sustainability (continued)

			MTFP			
£m	24/25	25/26	26/27	27/28	28/29	TOTAL
Total gap	36.2	69.5	89.9	94.6	100.1	390.3
WMCA Actions - Operational efficiencies and windfall from treasury gains	(7.4)					(7.4)
Gap after WMCA Actions	**28.8**	**69.5**	**89.9**	**94.6**	**100.1**	**382.9**
Annually	(6.0)	(12.2)	(18.8)	(25.7)	(33.0)	(95.7)
Additional revenue funding	(22.8)	(57.3)	(71.1)	(50.0)	(48.8)	(250.0)
Total additional funding	**(28.8)**	**(69.5)**	**(89.9)**	**(75.7)**	**(81.8)**	**(345.7)**
Residual gap/(surplus)	-	-	-	**18.9**	**18.3**	**37.2**

Source: Update to Mayor and Leaders 3 November 2023
Table 2: The medium term budget gap

There are well publicised financial pressures among constituent member councils of the Combined Authority, including Birmingham, Coventry and Dudley. The Authority has worked closely with the leaders at Birmingham City Council, following the issuing of the Section 114 notice in September 2023 and have documented and assessed the current financial exposure to the Combined Authority as a result of this, although there are likely to be more pressures that are not known at this stage.

Developing a sustainable bus transport strategy poses a significant challenge to the Combined Authority due to the national issue of fewer customers post-Covid, yet still the same pressures to provide a comprehensive service, particularly to more rural communities. The economic pressures on the bus service provider market, including higher costs and smaller margins, exacerbate these challenges. These issues require innovative solutions and collaboration between stakeholders to ensure a sustainable and effective bus transport system that meets the needs of both passengers and service providers.

Reserves

The £2.8m surplus recognised in 2022/23 has been transferred to the Authority's General Reserves, resulting in a balance of £4.4m as of 31 March 2023.

During the year, there was a £21.4m transfer between earmarked reserves, the detail of which is included 2022/23 section above. In addition, the MTFP includes one-off utilisation of reserves as a means of achieving a balanced budget in 2023/24.

When setting the 2023/24 budget the assumed General Reserve Balance was £1.6m (equivalent to 1.3% of the aggregate proposed 2023/24 Constituent Authority contributions). The year end position of £4.4m is therefore equivalent to 3.6% of the aggregate proposed 2023/24 Constituent Authority contributions. However, it does only represent 1.3% of gross expenditure budgeted for in 2023/24.

The Combined Authority's level of general reserves is considered to be low in comparison to its revenue expenditure. It is generally accepted that general fund reserves should be between 3% and 5% of expenditure. Based on the 2023-24 budget, the Combined Authority falls well below this level.

However, it is also important to note that the level of reserves at a Combined Authority does not assume the same level of risk as reserves at other local authorities due to the funding arrangement. The Combined Authority does recognise this risk as reported in the 2023/24 budget report, where the Director of Finance recognised the proposed General Reserve Balance was outside of the generally accepted range but noted that WMCA does carry earmarked reserves in order to ensure that existing commitments can be delivered. It was also noted that it would not be appropriate for WMCA to sit on extensive general reserves whilst Constituent Members face funding challenges of their own.

It is still important for the Combined Authority to have a level of reserves proportionate to its revenue spend in order to protect it against financial risk. This will become increasingly important once the Single Settlement is in place. We have therefore raised an improvement recommendation encouraging the Combined Authority to continue to direct efforts towards building up its general reserve balance as the reserves provide an important financial cushioning against future uncertainty in revenue budgets.

Financial sustainability (continued)

Capital

As at the end of March 2023, the Capital Programme had actual costs totalling £345.2m, giving a positive variance to budget of £245.7m, primarily within Transport (£155.7m) and Housing (£45.7m). The programme includes plans for the allocation of the £1.05bn WMCA received from the City Regional Sustainable Transport Settlement (CRSTS) Fund. CRSTS is a capital grant that enables WMCA to proceed with its comprehensive Capital Programme but does not provide any added revenue support for the ongoing operational expenses of the Transport network.

The Transport Programme has been divided into six sub-programmes, with the Investment Programme being the largest, having a budget of £196.5m for the full year, including all Rail, Sprint, and Metro extension schemes. As at the end of March, the actual costs for the Investment Programme were £58.9m lower than the budget. The main variances are within the Metro Programme, amounting to £35.4m, and the Rail Programme, totalling £20.9m. The variances in the Metro Programme are due to rescheduling of design approvals and some procurement activities, while the Rail project has faced operational issues at each site, which have affected progress.

In respect of Midland Metro, delivery of the Wolverhampton Interchange scheme to extend the Midland Metro light railway system was commissioned at a cost of £33.3m. Programme management and delivery 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.

Financial monitoring by WMCA identified that the costs of work significantly exceeded the budget provision without the required approvals from WMCA to the sum of c.£9.6m and resulted in a breach of the organisation’s financial regulations.

The Authority commissioned an independent investigation. No evidence of any wrongdoing was found with improvement recommendations focussing on ways in which governance might be improved to reduce the risks of further overspends. Following a review of the findings and recommendations made, officers considered that it would be sensible to review these alongside a number of other reviews carried out by Transport for West Midlands and a recognition that in recent years a number of projects have exceeded the approved budget due to scope changes and/or construction challenges which have emerged on site.

It was therefore agreed that a high-level internal review of the Governance and Monitoring arrangements should be undertaken, to facilitate due diligence and effective programme management control measures are in place for the Transport for West Midlands (TfWM) capital programme. TfWM is currently going through a process called TfWM Reimagined, which is making significant changes to the directorate, and which it is expected will address many of the issues raised in the various reviews. It is intended that the internal review would pull together all of the issues raised, and work with officers in the directorate to ensure that they are all being addressed.

It is not uncommon for there to be changes in scope and cost of transport projects but there does need to be an appropriate approval process. The variation against TfWM’s original capital budget of £296m is relatively small at c3% and the Authority’s arrangements did identify the breach. The Authority has reported through ARAC how it is taking action to improve arrangements going forward. We have therefore not raised an improvement recommendation but will follow up on actions taken as part of our 2023/24 work.

The Housing Portfolio's variance is mainly attributed to delayed projects in the Brownfield Housing Fund (BHF) and BLPDF Pipeline. These projects have not been presented for approval to the Investment Board, or moved from approval to signed funding agreements, due to various reasons such as the economic climate, national policy changes (such as planning), land negotiations, and inability to secure relevant planning permissions or resolve construction and energy cost issues. Examples of such projects include Telford Station Quarter (£2.4m), Shard End (£2.5m) and Icknield Port Loop (£2.1m). Additionally, there has been a review of costs on Phoenix Park (£4.3m) due to cost inflation, which will be presented to the Investment Board in 2023/24. Furthermore, uncommitted funds related to the Phoenix 10 project in the Land and Property Investment Fund, managed outside the Housing and Land Portfolio, totalling £5.5m, have been deferred to future years.

Conclusion

The Combined Authority exhibited strong financial performance in 2022/23, finishing the year with a positive £2.8m variance to budget. The Combined Authority is forecasting a break-even year-end position for 2023/24. The Authority was able to replenish reserves during 2022/23 through transfers of the surplus to reserves, although the reserves level is low compared to revenue spend and we have raised a recommendation in this regard.

Improvement recommendations

Improvement Recommendation 1	The Combined Authority continues to direct efforts towards building its general reserves balance to its target within a reasonable timeframe.
Summary findings	The Combined Authority's level of general reserves is considered to be low in comparison to its revenue expenditure. It is generally accepted that general fund reserves should be between 3% and 5% of expenditure. Based on the 2023-24 budget, the Combined Authority falls well below this level at around 1.3% of gross expenditure budgeted for in 2023/24. However, it is also important to note that the level of reserves at a Combined Authority does not assume the same level of risk as reserves at other local authorities due to the funding arrangement i.e. many schemes and services are directly grant funded but there are those, mainly in the transport sector, where demand led risks continue to exist and can impact upon contributions required from constituent authorities. The 2022/23 year end position of a £4.4m General Reserve Balance is equivalent to 3.6% of the aggregate proposed 2023/24 Constituent Authority contributions. It is still important for the Combined Authority to have a level of reserves proportionate to its revenue spend in order to protect it against financial risk. This will become increasingly important once the Single Settlement is in place. We have therefore raised an improvement recommendation encouraging the Combined Authority to continue to direct efforts towards building up its general reserve balance towards the generally accepted range of 3-5% of expenditure as these reserves provide an important financial cushioning against future uncertainty in revenue budgets.
Criteria impacted	Financial sustainability
Management comments	As reported to June 2023 WMCA Board, WMCA transferred £21.4m into earmarked reserves at the end of 22/23. Over the last 2 years, WMCA has taken the approach to build up earmarked reserves for revenue risks rather than transferring surpluses into the general reserve. The MTFP has identified transport funding pressures as the most significant risk to the authority budgets, £11.5m of the year end transfer was onto a transport risk reserve recognising this risk and has been committed in the current financial year to support ongoing pressure in the bus network. Therefore while WMCA accepts that the general reserves balance is low and will endeavour to increase this as funds become available, it should be noted that the Authority does feel that it has made provision for revenue risks as funds have become available.

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Governance

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We considered how the Authority:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

The Combined Authority is in the process of developing its governance arrangements to accommodate a bigger organisation, with more projects, more direct delivery and fundamental changes to the way that they are funded going forward. While to date, the Authority has received money and fundraising powers in the context of a multitude of specific grants for specific use, going forward, under the single settlement proposals within the new devolution deal, it will have much more control and freedom to allocate funding based on regional rather than national priorities. This will require significant cultural and operational change over the next few years.

The Combined Authority has made a good start to this process, but it will require time and focus over the next few years. The proposed assumption of Police and Crime Commissioner (PCC) powers being integrated into the Combined Authority's operations next year is a good example of the need for promptness and focus in this area. We recommend that the Combined Authority act promptly to develop and embed the new governance arrangements that will be needed for its new functions and responsibilities, to enable new devolution funding to start being converted into programmes for delivery.

Risk management

The Combined Authority had appropriate risk management arrangements in place during 2022-23. The Strategic Risk Management Framework guides risk management at the organisation. This was last updated in November 2021. The Strategic Risk Management Framework outlines the Combined Authority's arrangements to identify strategic risks, understand them, record them within the risk management system and assess and score them. Risks are scored using a 5x5 scoring matrix, calculated by multiplying likelihood by impact. The Combined Authority uses risk registers to record risks and these are in operation at project level all the way up to strategic level.

The Combined Authority reports strategic risks to the Audit, Risk and Assurance Committee (ARAC) at each meeting (at least four times per year). The latest available strategic risk register from October 2023 reported 21 risks. We consider this to be a sizeable number of risks being reported at strategic level. We raise an improvement recommendation for the Combined Authority to reconsider how many risks are being reported for ARAC. Too high a number of risks does not incentivize members to focus on the priority areas and risks the most important risks being overlooked.

The strategic risk register includes the title of a risk, its related cause and effect, control measures in place, a RAG rating and further actions required to mitigate the risk. However, risks are not mapped to their relevant corporate objective or allocated to a named senior officer. There is also no outline of the direction of travel for each risk. We have raised an improvement recommendation to enhance the presentation of the strategic risks in these areas.

Internal audit

The Combined Authority has an adequate and effective internal audit function in place. This was in place during 2022/23. The Internal Audit function of the Combined Authority is to provide the Chief Executive and the Audit, Risk and Assurance Committee with an opinion on the adequacy and effectiveness of the Authority's governance, risk management and control processes.

The Internal Audit function has, historically, been provided by the Wolverhampton Council Internal Audit team, until 2022-23, where the decision was made to bring the Internal Audit function in-house. At the time of our review, a new Head of Audit, Information and Governance is being recruited for, with interviews ongoing, with a view to making an appointment in late 2023.

To bridge the gap, Internal Audit Liaison officer Lorraine Quibell has been overseeing the smooth function of Internal Audit, with three agency staff working with her to complete the internal audit testing required.

Governance (continued)

The 2022/23 audit plan contained 18 audits in total, with 12 having been completed giving a 66% completion rate.

Based on the work of the Combined Authority's Internal Audit function undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, a provisional opinion of 'reasonable assurance' has been provided. This states that the Combined Authority has adequate and effective governance, risk management and internal control processes.

In 2022-23, 12 Internal Audit reviews were carried out. Of these, 10 were assessed as 'substantial' or 'satisfactory' levels of assurance with two assessed as 'limited', an increase on the one 'limited' assessment in 2021-22. The audit of Procurement Exemptions and IR35 Compliance concluded that there was 'limited' assurance.

Regarding Procurement Exemptions, WMCA's published contract procedure rules were found to be out of date and did not correlate with the actual processes and procedures set out in the Purchasing Procedures and Contract Manual. Additionally, there appeared to be no monitoring undertaken of multiple exemption requests for the same supplier. Testing also identified that suppliers were recorded using different names therefore making it difficult to identify duplicate suppliers. Finally, purchasing card data was not accessible to Procurement in order to identify potential spends that have bypassed the exemption process.

Regarding IR35 compliance, levels of non-compliances were identified where WMCA IR35 processes had not been followed. The WMCA Agency Protocol was dated prior to 2017 and had not been updated to include the current working practices and the requirements since the introduction of IR35. Further, WMCA's process for identifying and capturing workers for assessment for IR35 had not been updated since 2017. No IR35 Policy is in place or updates to the Board on changes in legislation or guidance. Finally, a complete register / central record had not been kept up to date of IR35 employment status checks undertaken to evidence compliance with IR35 legislation.

We consider that the coverage has been adequate and have no concerns about their effectiveness.

As the Combined Authority's internal audit provider, Wolverhampton Council was responsible for managing the external assessment for compliance with Public Sector Internal Audit Standards (PSIAS). The Authority was last assessed in 2018/19, when it was concluded it was compliant. The reviews are required at least every five years therefore the next review is due in the next year, once new arrangements are finalised.

The responsibility for counter fraud is led by the monitoring officer, who can instruct the Internal Audit function to investigate any incidences of potential fraud. The Combined Authority is a member of the National Fraud Initiative and is required by law to protect the public funds it administers.

The Combined Authority has a Whistleblowing policy, Anti-Fraud and Corruption policy and a Code of Conduct for the Mayor and members in place (the detail of which was provided as part of 2020-21 audit). The Whistleblowing policy and Anti-Fraud and Corruption policy were last reviewed on 30 November 2022 and 1 December 2022 respectively, whereas the Code of Conduct was last updated on 23 December 2020.

We recommend that the Code of Conduct is reviewed for appropriateness in the current financial year, due to the length of time that has passed since the last review.

Audit committee effectiveness

The purpose of the Audit, Risk and Assurance Committee (ARAC) is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements at the Authority. The committee's role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to the Board that those arrangements are effective.

Membership is prescribed in its Terms of Reference contained within the Authority's constitution as two from local LEPs and a member or substitute from each Constituent and Non Constituent body. Including the Independent Chair ARAC is currently comprised of 11 members.

CIPFA's recommendation in *Audit Committees: Practical Guidance for Local Authorities and Police* (2022) is authorities should strive to have no more than eight members, placing the Combined Authority over the suggested range. CIPFA recognises that committees of this size should allow sufficient breadth of experience but is small enough to allow the training and development of a dedicated group.

We understand that the size and composition of ARAC is driven by the original 2016 establishment order and the subsequent constitution. As we have reported in previous reports ARAC has struggled with quoracy. Through the efforts of officers and the Independent Chair this has improved during 2022-23. However, a smaller committee could further help mitigate this risk and bring the Combined Authority in line with best practice as highlighted by CIPFA. We have therefore raised an improvement recommendation that the Combined Authority seek to revise the membership of the Audit Committee to bring it in line with CIPFA guidance.

Governance (continued)

CIPFA guidance also emphasises the importance of the separation of executive roles and the membership of the Audit Committee. Where an authority has a cabinet system of governance, which in effect is what is in place at the Combined Authority with its Board and committee structure, including a member of the Board on the committee is discouraged. We have compared the membership of the ARAC with the members of the Board to ensure a clear separation. We can confirm that no members of the Board are also members of the ARAC, in line with the guidance.

We recommend that the Combined Authority enshrine in its Constitution the separation of roles and, in line with CIPGFA's guidance, also institute the rule that a period of two years should elapse before a Councillor who previously held a senior policy role joins ARAC. Inclusion in the constitution will ensure clarity of process should any confusion/debate arise in the future. Separation of executive roles and ARAC allows members of ARAC greater independence in their roles and assists in maintaining a nonpolitical approach.

The chair of the ARAC is an independent, non-executive member, with the other members being councillors of constituent member councils or representatives from Local Enterprise Partnerships. CIPFA guidance and the Redmond Review (2020) recommend that committees include two-coopted independent members. We recommend that the Combined Authority considers the merits of appointing another appropriately qualified independent member to ARAC. The injection of an external view can often bring a new approach to committee discussions and provides an element of continuity outside the political cycle (though this would be more salient at an authority that had annual changes/elections).

To discharge its responsibilities effectively, CIPFA guidance recommends the committee meet at least four times a year. The Combined Authority reiterate this by including in the Constitution that the Committee will meet at least four times a year. In both 2021-22 and 2022-23, the ARAC met four times.

CIPFA guidance recommends that authorities report annually on how the Audit Committee has complied with the position statement, discharged its responsibilities and include an assessment of its performance. At present, whilst minutes are taken to each Board meeting the Combined Authority does not produce an annual self-assessment on the effectiveness of ARAC. We have raised an improvement recommendation to that effect.

Leadership & decision-making

The WMCA Board is the main decision-making body. Reports are presented to the Board. All reports are presented in a standard format and include the requisite amount of detail.

There is also a well-established structure of other committees including:

- Transport Delivery Committee
- Investment Board
- Audit Risk & Assurance Committee (ARAC)
- Overview & Scrutiny

Each of these committees/Boards receives standard format reports for scrutiny and decision making.

The Combined Authority's Constitution sets out the terms of reference for the running of the Authority and was last updated on 26 April 2017. We recommend that the Constitution is reviewed to ensure it remains compliant with the most up-to-date legislation and organisational changes, especially when the Single Settlement is finalised.

The latest update, following the passing of the Levelling Up and Regeneration Bill in November 2023, was the request made by the Mayor to transfer West Midlands Police & Crime Commissioner powers to the Combined Authority. The Combined Authority see it as a vote of confidence in their financial management and governance procedures that the Government has agreed to the Trailblazer Devolution deal, Levelling Up and Regeneration Bill and merging of the PCC's powers. The Authority have set up working groups to understand and assess the governance requirements needed for this transition in 2024.

There is also requirement to revisit the priorities of the Combined Authority following the Government's decision, in October 2023, to cancel the northern leg of HS2. The West Midlands will now be at the end of the line, rather than in the middle and this will impact the influence of the development in the area and the financial and social implications that will come from this.

Conclusion

During 2022/23, the Combined Authority had adequate risk management arrangements in place, guided by the Strategic Risk Management Framework. We have raised an improvement recommendation regarding the presentation of the strategic risk register. The Combined Authority has an adequate and effective internal audit function to provide opinions on the adequacy and effectiveness of the Authority's governance, risk management, and control processes. We have raised a recommendation regarding the need to update the Code of Conduct. The Audit, Risk and Assurance Committee (ARAC) at the Combined Authority provides an independent and high-level focus on the adequacy of governance, risk, and control arrangements. We have raised recommendations regarding the membership of the ARAC.

Improvement recommendations

Improvement Recommendation 2	The Combined Authority should review: • its Constitution to ensure it remains compliant with the most up-to-date legislation and organisational changes, and • the Code of Conduct to ensure it remains appropriate.
Summary findings	The Combined Authority's Constitution sets out the terms of reference for the running of the Authority and was last updated on 26 April 2017. We recommend that the Constitution is reviewed to ensure it remains compliant with the most up-to-date legislation and organisational changes. The Code of Conduct was last updated on 23 December 2020. The Code of Conduct is centred around the principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership and the Mayor and all members of the Combined Authority are required to sign it. We recommend that the Code of Conduct is reviewed for appropriateness in the current financial year, due to the length of time that has passed since the last review and any potential impact upon governance arrangements as a result of the Single Settlement and the assumption of PCC powers.
Criteria impacted	Governance
Management comments	A report dealing with governance arrangements when PCC functions are transferred into the Combined Authority's operations next year is on the forward plan and is due to be consider by the Board in February 2023. The Combined Authority's Constitution will be reviewed following the transfer of PCC functions to ensure effective integration of the new functions is considered in the review. The review will be completed ahead of Single Settlement in Spring 2025. The Code of Conduct will be reviewed during the remainder of this financial year to ensure that it remains appropriate.

Improvement recommendations (continued)

Improvement Recommendation 3	The Combined Authority should act promptly to develop and embed the new governance arrangements that will be needed for its new functions and responsibilities, to enable new devolution funding to start being converted into programmes for delivery.
Summary findings	The Combined Authority is in the process of developing its governance arrangements to accommodate a bigger organisation, with more projects, more direct delivery and fundamental changes to the way that they are funded going forward. While to date, the Authority has received money and fundraising powers in the context of a multitude of specific grants for specific use, going forward, under the single settlement proposals within the new devolution deal, it will have much more control and freedom to allocate funding based on regional rather than national priorities. This will require significant cultural and operational change over the next few years. The Combined Authority has made a good start to this process, but it will require time and focus over the next few years. The assumption of PCC powers being integrated into the Combined Authority's operations next year is a good example of the need for promptness and focus in this area.
Criteria impacted	Governance
Management comments	New governance arrangements are now being developed in consultation with the Executive Board and we will be seeking to work with Local Authorities, Chief Executives and Leaders to ensure that there is more effective engagement with our Constituent Authorities, and that all LA place based strategies and priorities can be considered appropriately alongside the Functional Pillars of the Single Settlement, the Outcomes Framework and the enhanced scrutiny and accountability requirements provided in the deeper devolution deal, the EDAF and the newly published Scrutiny Protocol.

Improvement recommendations (continued)

Improvement Recommendation 4	The Combined Authority should review its Strategic Risk Register to: • reconsider how many strategic risks are being reported to the Audit, Risk and Assurance Committee, and • map each risk to its relevant corporate objective, allocate each strategic risk to a named senior officer and outline the direction of travel for each risk.
Summary findings	The Combined Authority reports strategic risks to the Audit, Risk and Assurance Committee (ARAC) at each meeting (at least four times per year). The latest available strategic risk register from October 2023 reported 21 risks. We consider this to be a sizeable number of risks being reported at strategic level as too high a number of risks does not incentivize members to focus on the priority areas and risks the most important risks being overlooked. The strategic risk register includes the title of a risk, its related cause and effect, control measures in place, a RAG rating and further actions required to mitigate the risk. However, risks are not mapped to their relevant corporate objective or allocated to a named senior officer. There is also no outline of the direction of travel for each risk. We have raised improvement recommendations to enhance the presentation of the strategic risk register.
Criteria impacted	Governance
Management comments	We will look to remove risks which are not or are no longer a significant strategic risk and will continue to share a Strategic Risk update including direction of travel for each risk with Executive Board and members of ARAC at each meeting to help focus attention on key messages relating to the most significant risks. Our existing unabridged Strategic Risk Register is cross-referenced to our Annual Business Plan performance reporting where performance concerns may affect our ability to bring strategic risk under control or where strategic risk may be having an affect on our business plan performance. Risks are currently allocated to a senior named officer in the unabridged version of the strategic risk register and this information will also be included in the Strategic Risk update to Executive Board and members of ARAC to enhance visibility going forward.

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Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations (continued)

Improvement Recommendation 5	Regarding the Audit, Risk and Assurance Committee (ARAC), the Combined Authority should: • seek to revise the membership of ARAC to seek to bring it in line with CIPFA guidance, within the constraints of the establishment order and the Constitution. • enshrine in its Constitution the separation of roles and include that it will institute the rule that a period of two years should elapse before a Councillor who previously held a senior policy role joins ARAC in line with CIPFA's guidance. • consider the merits of appointing another appropriately qualified independent member to ARAC, and • report annually on how ARAC has complied with the position statement, discharged its responsibilities and include an assessment of its performance.
Summary findings	ARAC is currently comprised of 11 members. CIPFA's recommendation in *Audit Committees: Practical Guidance for Local Authorities and Police (2022)* is authorities should strive to have no more than eight members, placing the Combined Authority over the acceptable range. CIPFA recognises that committees of this size should allow sufficient breadth of experience but is small enough to allow the training and development of a dedicated group. CIPFA guidance emphasises the importance of the separation of executive roles and the membership of the Audit Committee. Where an authority has a cabinet system of governance, as at the Combined Authority, including a member of the cabinet on the committee is discouraged. We have compared the membership of the ARAC with the members of the Cabinet to ensure a clear separation. We can confirm that no members of the cabinet are also members of the ARAC, in line with the guidance. Separation of executive roles and Audit Committee allows members of the Audit Committee greater independence in their roles and assists in maintaining a nonpolitical approach. We recommend that the Combined Authority enshrine in its Constitution the separation of roles and, in line with CIPGFA's guidance, also institute the rule that a period of two years should elapse before a Councillor who previously held a senior policy role joins ARAC. Inclusion in the constitution will ensure clarity of process should any confusion/debate arise in the future. The chair of the ARAC is an independent, non-executive member, with the other members being councillors of constituent member councils. CIPFA guidance and the Redmond Review (2020) recommend the committee includes two-coopted independent members. The injection of an external view can often bring a new approach to committee discussions and provides an element of continuity outside the political cycle (though this would be more salient at an authority that had annual changes/elections). CIPFA guidance recommends that authorities report annually on how the Audit Committee has complied with the position statement, discharged its responsibilities and include an assessment of its performance. At present, the Combined Authority does not produce a self-assessment on the effectiveness of ARAC.
Criteria impacted	Governance
Management comments	We will review the Terms of Reference and membership and reporting arrangements of ARAC in the context of the guidance published by CIPFA in 2022 in consultation with members of the Committee in early 2024.

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness

We considered how the Authority:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

The Combined Authority can point to a number of successes from the 2022-23 financial year, including:

- Planning and delivering an award-winning, world-class transport programme for the Birmingham 2022 Commonwealth Games, which delivered over £870 million to the UK economy and 9,000 full time equivalent jobs. A record 1.5 million tickets were sold for Birmingham 2022, the largest multi-sport event hosted in England in the last 10 years.
- Launching a groundbreaking Housing, Property and Regeneration strategic partnership with Legal & General, which involved a commitment of £4bn over the next seven years. Furthermore, negotiating a housing and land deal worth up to £500m with HM Government.
- Launching a new Plan for Growth, an ambitious strategy for boosting growth, spreading opportunity and jobs, to help level-up the region, which included exceeding the target of securing £40m of apprenticeship levy transfer funds, ahead of schedule, with the funds used to support more than 3,000 apprentices to begin a new career.

Performance reporting

The Combined Authority has arrangements in place to monitor and track performance. All combined authorities are subject to five-yearly gateway reviews which functions as an independent evaluation of performance. The last gateway review was performed in 2020 and noted positive progress.

The Combined Authority's plans are closely aligned with its Aims and Objectives/Strategy document. Aim 6.3 is:

"We will ensure our workforce have the skills and competencies to deliver our strategy by:

- Developing a clear and inclusive strategy for improving organisational competencies to address skills gaps between workforce profile and strategic objectives through coaching, mentoring, recruitment, training and leadership development in order to deliver our strategy
- Ensuring performance management insights are embedded within workforce planning activity to enable evidence-based decisions and increased productivity"

During the 2022-23 financial year, the performance monitoring system has been updated to better connect reporting of the performance and finances, linking them together to give senior leadership a more holistic view of the performance against the Aims and Objectives. The system is app-based and is accessed via Microsoft Teams making it easily accessible and usable. A Microsoft Power BI platform is then used to provide informative dashboards for management. It is the early days of its development with work focusing on allocating capital budgets to specific High-Level Deliverables and milestones which underpin the Aims and Objectives.

The Combined Authority has, via its new performance monitoring system, linked its finances to each of the aims and objectives and is now reporting on a monthly basis on progress against these. The Financial Monitoring arrangements, which include monitoring the revenue impacts of the Capital programme via regular financial reports and also updates on the investment programme, are reported as part of this.

Improving economy, efficiency and effectiveness (continued)

The new performance management system has been rolled out by the Combined Authority, with the aim of implementing SMART (Specific, Measurable, Achievable, Realistic, and Timely) measures of performance across the organisation, focusing on the areas outlined below:

- Ensure that performance data is easily accessible and disseminated across teams to support decision-making based on evidence.
- Enhance the ABP (Annual Business Plan) dashboard to provide a more comprehensive overview of performance encompassing aspects such as finance, performance, and risk.
- Keep refining the organisational health dashboard to include metrics on people, finance, complaints, and customer feedback so that leaders can quickly identify trends and the overall direction of the organisation.

The Combined Authority's areas of strategic focus can be outlined in 6 key areas, identified as part of the #BetterConnected initiative launched in 2022:

- People – Connecting our people, sharing our experiences, understanding our values, and cross-cutting ways of working.
- Places – Connecting our people to places, combining our services for greater impact and sustainability.
- Partners – Connecting with partners to combine expertise in delivering relevant and excellent services.
- Processes – Connecting fair and transparent processes enabling work to flow across the organisation, bringing clarity to decision making.
- Information – Connecting our people, places, and services in gathering and sharing knowledge.
- Hybrid – Connecting our ways of working to meet people and organisational

Strategically, the Combined Authority's Plan for Growth, Investment Prospectus, Net Zero Five Year Plan and the new Local Transport Plan demonstrate that the Authority is primed and ready to drive change. Whilst acknowledging that it won't be easy, the Authority is working alongside their constituent member councils and other regional partners and the journey to a fairer, greener, better connected West Midlands is taking shape.

All officers interviewed as part of our review have been open, transparent and helpful. It is clear they are all committed to the organisation and take pride in its functions and set a good example for staff at all levels.

The Authority's "Aims and Objectives" strategy document gives a very clear view of the strategic vision of the Authority and our discussions and interviews with all senior management have indicated that they are fully focused on, and supportive of, the strategy.

Procurement

The Combined Authority does not have a formal, documented procurement strategy in place. There are contractual standing orders and a flow chart which outlines the required approvals for different types and sizes of procurement contract and at what stage these should be sought, but no formal strategy. We recommend that the Combined Authority create a formal procurement strategy aligned to the Mayoral priorities.

The Combined Authority has established Contract Standing Orders in place, to ensure that the Authority, as a body using public resources, sets and follows the highest standards of financial control and stewardship. The Combined Authority's Contract Standing Orders provide the Mayor, members and officers with procedures to follow which ensure that the Authority's expected standards are met in terms of managing public money and assets. We recommend that the Contract Standing Orders that lie within the Constitution are updated to ensure that they align with the most up-to-date legislation and regulatory requirements (this was last updated in 2017).

Whilst the way procurement operates has not changed, there have been a number of upgrades to the procurement processes in the past year, including implementing a procurement- focused assurance process to streamline and rubber stamp the launching of tenders, establishing an intranet homepage for procurement to be used as a one-stop-shop for all procurement needs across the Combined Authority. Those engaging in procurement are encouraged to undertake CIPS training and gain a related professional qualification. A new social value policy has been introduced to be used on all Combined Authority procurement work going forward, with the vision to create, deliver and sustain greater community benefits through the use of social value within the region.

Improving economy, efficiency and effectiveness (continued)

Additionally, financial standings checks have been introduced at the start of a tender, rather than at the end, which is how the process operated previously. Whilst this means there are more checks to be processed, the Authority know from the start whether it makes financial sense to proceed with the consideration of a certain supplier.

Whilst data on procurement is reported to the corporate management team as part of the internal audit process, there is a lack of clear reporting of procurement performance to committee level. We recommend that information on the procurement pipeline, tender progress and tender waivers (including number and size of waiver) are reported to committee level on at least a quarterly basis.

The procurement team are planning for 2024 in advance, with the Procurement Bill being passed which will come into effect in October 2024. The Head of Procurement has expanded the size of the procurement team in the current year (up to 24 members now) and has put forward a business case to further grow the team. This was based on our prior year recommendation regarding the need to improve the monitoring of contracts, which was due to a lack of capacity in the team.

Partnerships

The relationship with the constituent member councils and commercial partners is integral to the successful delivery of Combined Authority projects/programmes and to successful collaborative working. The Combined Authority is uniquely positioned to successfully coordinate and negotiate. The Combined Authority provides assurance where constituent member councils have delivery responsibility to ensure the connection between local and regional priorities.

From discussions with the Mayor and other senior leadership members, it is clear that a priority is made of working closely with partners and developing relationships. Whilst medium term uncertainty can make planning difficult and the political situation has the potential to interfere with working connections, day to day level relationships are strong - evidenced by the decisions and achievements in the year, including the devolution deal, new transport plan, single settlement deal and the partnership with Legal & General.

The key partnerships in operation between the Combined Authority and external providers relate to transport (approximately 50% of the Combined Authority's planned capital investment to 2025/26 consists of expenditure incurred by Transport for West Midlands in pursuance of the Investment Programme, Transforming Cities Programme and the Minor Works Programme) and adult education.

The Combined Authority is also part of the M10 network of Mayoral Combined Authorities. Through this network, the combined authorities can share learnings and draw on the experience of others. The Authority has arrangements in place to learn from other local government organisations to improve its performance. Many networks are in place with other councils and combined authorities, both formal and informal. Chief Executives, S73/S151 officers, HR directors and Strategy Directors all meet frequently and share ideas and learning.

Conclusion

The Combined Authority has delivered several successes in 2022/23, most notably its contribution to the delivery of the Commonwealth Games. During the 2022-23 financial year, the performance monitoring system has been updated to better connect reporting of performance and finances. The organisation is in the process of gearing up or the challenge.

The Authority's Plan for Growth, Investment Prospectus, Net Zero Five Year Plan, and the new Local Transport Plan demonstrate its readiness to drive change. The Combined Authority does not have a formal procurement strategy in place and there is a lack of reporting of procurement performance to committee level, both of which we have raised recommendations in relation to.

Improvement recommendations

Improvement Recommendation 6	The Combined Authority should create a formal procurement strategy aligned to the Mayoral priorities.
Summary findings	The Combined Authority does not have a formal, documented procurement strategy in place. There are contractual standing orders and a flow chart which outlines the required approvals for different types and sizes of procurement contract and at what stage these should be sought, but no formal strategy.
Criteria impacted	Improving economy, efficiency and effectiveness
Management comments	Procurement strategy to be developed, agreed and recorded in conjunction with the new Mayoral term during 2024.

Improvement Recommendation 7	The Combined Authority should update the Contract Standing Orders that lie within the Constitution to ensure that they align with the most up-to-date legislation and regulatory requirements.
Summary findings	The Combined Authority has established Contract Standing Orders in place, to ensure that the Authority, as a body using public resources, sets and follows the highest standards of financial control and stewardship. The Combined Authority's Contract Standing Orders provide the Mayor, members and officers with procedures to follow which ensure that the Authority's expected standards are met in terms of managing public money and assets. The Contract Standing Orders were last updated in 2017.
Criteria impacted	Improving economy, efficiency and effectiveness
Management comments	An update to the Contract Procedure Rules/ Standing Orders has already been identified, with a target date of Q1 2024 for a refreshed version to be submitted to the Executive Board for review and approval.

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations (continued)

Improvement Recommendation 8	The Combined Authority should ensure that information on the procurement pipeline, tender progress and tender waivers (including number and size of waiver) are reported to committee level on at least a quarterly basis.
Summary findings	Whilst data on procurement is reported to the corporate management team as part of the internal audit process, there is a lack of clear reporting of procurement performance to committee level.
Criteria impacted	Improving economy, efficiency and effectiveness
Management comments	Procurement performance reporting arrangements to be designed and agreed in 2024, in consultation with both the Director for Commercial and Investment Activities and the Executive Director of the Finance and Business Hub, whilst also factoring in and taking account of enhanced levels of procurement data capture and reporting with the upcoming roll out of the Procurement Act 2023 (due October 2024).

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Where the Audit Risk and Assurance Committee (ARAC) is required to make decisions that impact upon deadlines and/or statutory requirements, assurances should be sought from members that they are able to be present or will send a substitute, so that the meeting will be quorate. The ability to make timely decisions is an important aspect of the Governance of the Authority, and being unable to make decisions can impact on the Authority's ability to meet statutory deadlines. The constitution is such that membership includes thirteen individuals, of which eleven are Councillors from the constituent and non-constituent bodies. For the meeting to be quorate and enable decisions to be taken, nine members need to be present. This is often challenging, creating the potential for delays in decisions being implemented. There is a clear acknowledgement from the Chair of ARAC of the issue of quoracy of the meetings. Regular reminders are sent to members and the likely impact of non-attendance is considered in advance of the meetings. However, there have still been meetings during the, year, where quoracy hasn't been achieved.	Improvement	June 2023		Partially	We have re-raised a recommendation to ensure that the Authority is focused on delivering improvements. See improvement recommendation No. 5.
2	The Authority should consider its approach to contract monitoring to mitigate the potential risk that it may not be being carried out consistently or by staff who have the appropriate skillset or experience and therefore that maximum value is not being extracted from the Authority's current contracts. Contract monitoring as a function is currently carried out by budget holders. There is a risk that a lack of contract management expertise may mean that there is a risk to the Authority that maximum value is not being extracted from the Authority's current contracts and learning is not taken into future contract negotiations. Close management of contracts can lead to better value for money contracts in the future. It allows for deeper understanding of the contract, so that when it comes up for renewal it can be re-negotiated in a more advantageous way. Contract management is currently the responsibility of individual budget holders. With the increase in procurement expertise there is merit in considering how to mitigate the risk that not all budget holders will have the capacity, expertise or experience in this area to undertake this in the most effective way - including whether the contract management function could be more centralised.	Improvement	June 2023			

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Authority's financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Authority in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We intend to issue an unqualified opinion on the Authority's financial statements on following the meeting of the Audit Risk and Assurance Committee on the 4th December 2023.

The full opinion will be included in the Authority's Statement of Accounts for 2022/23, which will be available from the Authority's website once the audit is concluded.

Further information on the progress of our audit of the financial statements is set out overleaf.

Opinion on the financial statements

Timescale for the audit of the financial statements

We issued the audit plan in April 2023, and this was presented to the Audit, Risk and Assurance Committee (ARAC) on the 18th April. In order to issue the audit plan, we completed an interim planning visit in March 2023, and agreed fieldwork dates for the year end audit to commence from the 3rd July until the end of September.

The audit plan identified two risks requiring special audit consideration, these were;

- Management Override of Controls, and
- Valuation of the pension fund net liability.

The Authority provided draft accounts by the end of June, in line with the internally agreed timetable, but a month later than the deadline as outlined in the Accounts and Audit Regulations. This is indicative of the position in the sector, and not a unique position that the Authority is in.

There were delays in the production of the working papers to support the financial statements. Also, the Authority had been unable to address prior year recommendations in respect of simplifying audit trails as a result of resources being required to support finalisatoin of the 2021/22 audit and overall capacity of the Authority's finance team. This has impacted on the timescales to complete the 2022/23 audit, with the opinion anticipated to be given in December 2023.

Recommendations have been made for improvements to be made to both the method of production of the financial statements and the quality of the supporting working papers and evidence in time for the production of the 2023/24 financial statements.

Findings from the audit of the financial statements

We designed testing to address the risks identified in our audit plan.

As at the date of drafting this AAR, we have not identified any adjustments that impact on the Authority's reported financial position, however it is likely that a material adjustment will be required to the balance sheet, in respect of the treatment of the pension asset as guidance on the application of accounting standard IFRIC 14 to local government pension schemes clarifies.

The Authority are required to set aside an amount for the repayment of debt, the method for doing this is included in statutory guidance, and this is referred to as the Minimum Revenue Provision (MRP). As part of the financial statements audit, we concluded that the MRP policy that the Authority was following was not in accordance with the statutory guidance, as MRP was not being made for loans to third parties. An estimate of the MRP that has not been provided in year is £9.6m. Instead of making this provision, the Authority have a first charge security in place, and make a provision for the loans defaulting of £5m, although at this time, there is no evidence of defaults. There is clear evidence that the Authority has considered prudence when setting the MRP policy, but not followed the calculation method as outlined in the statutory guidance.

We also identified errors in both the debtors and creditors population and have discussed with finance officers ways in which systems could be improved to avoid similar errors in future years. Five recommendations have been made for management to implement prior to the closedown of the 2023/24 accounts.

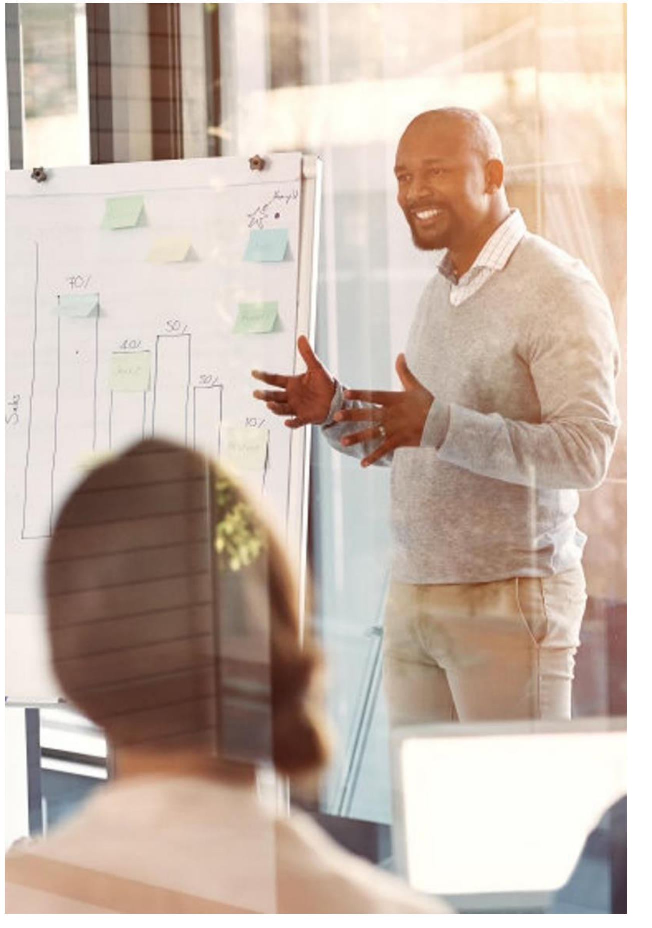
More details are set out in the Audit Findings Report, which was presented to the Audit, Risk and Assurance Committee on 4th December 2023. Requests for this report should be directed to the Authority.

Other reporting requirements

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Authority's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Specific, detailed, work is not required as the Authority does not exceed the threshold.



Appendices

Appendix A: Responsibilities of the Authority

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

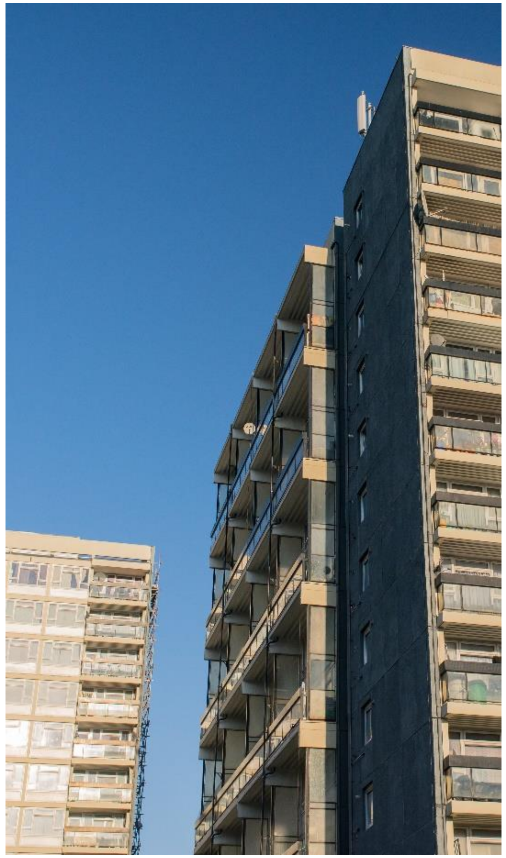
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Authority's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B:
An explanatory note on recommendations

A range of different recommendations can be raised by the Authority's auditors as follows:

Type of recommendation	Background	Raised within this report	Page references
Statutory	Written recommendations to the Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Authority's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Authority. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Authority, but are not a result of identifying significant weaknesses in the Authority's arrangements.	Yes	11,15,16,17,18,22 and 23

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Audit, Risk & Assurance Committee

Date	4th December 2023
Report title	Treasury Management Mid-Year Report 2023/24
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 Executive Director of Finance and Business Hub 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 2023/24;
- A review of the Authority's borrowing strategy for 2023/24;
- A review of any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24;
- Outlook for remainder of 2023/24.

2. Treasury Management Mid-Year Review 2023/24

2.1 Table 1 shows WMCA borrowing and investments held at 1 April 2023 and 30 September 2023. It shows that net investments have increased by £153.9m mostly as a result of grants being received in advance of need as documented below.

	April 2023 £m	**Change**	**Sept 2023 £m**	**Notes**
Borrowing	(507.9)	(89.9)	(597.8)	Drawdown of Phoenix Group £100m loan, August 2023
Investments	712.0	243.8	955.8	Receipt of government grants in advance of expenditure (AEB, CRSTS)
Net Investments	**204.1**	**153.9**	**358.0**	

3 Borrowing Activity

3.1 As notified in previous reports, to unwind a proportion of it's historic under borrowed position and to mitigate against increases in interest rates, the Authority arranged a forward-dated loan of £100m with Phoenix Group in February 2022. The cash drawdown date was set at 1 August 2023, but the interest rate was set as at commercial terms as of the agreement date (1 February 2022.) In comparison with the equivalent PWLB rate for this loan on 1 August 2023 WMCA has gained a notional interest saving of £91m over the term of the loan. The cash was drawn down per schedule and is linked specifically to service the existing capital financing requirements of the Investment Programme.

3.2 It is not anticipated that any further borrowing activity will take place during financial year 2023/24. WMCA's central strategy - as set out in the Treasury Management Strategy approved by Board in February 2023 - is to defer further borrowing whilst PWLB rates remain elevated.

4 Historic Borrowing

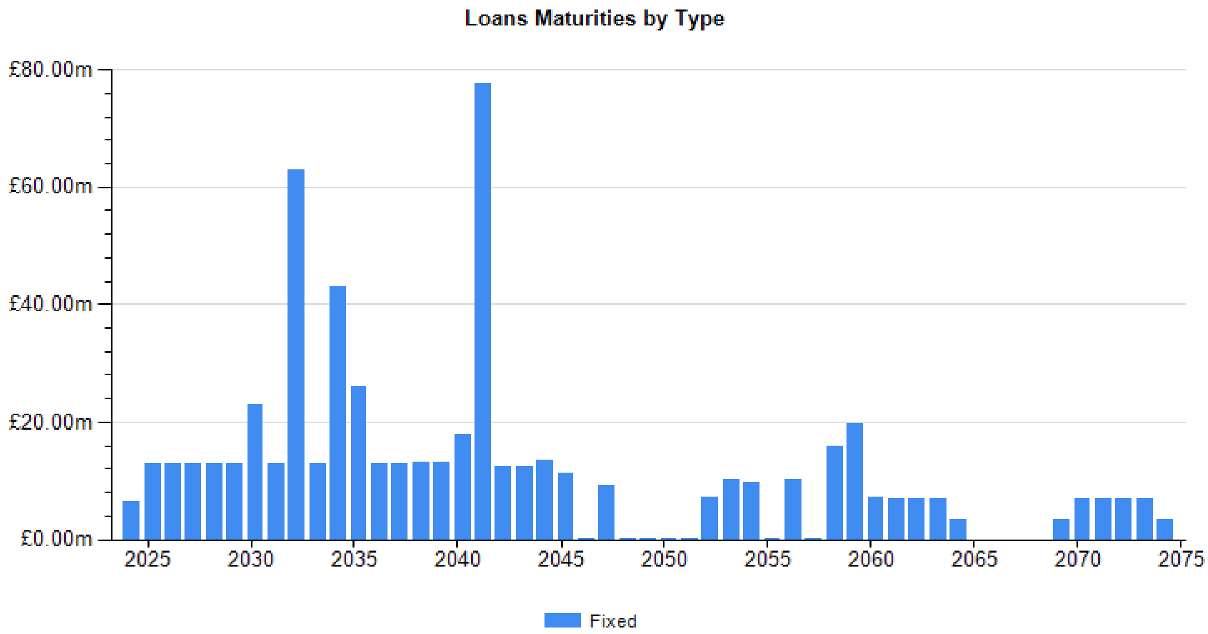
4.1 The main source of historic borrowing for WMCA has been the Public Works Loans Board (PWLB). The Director of Finance continues to review the opportunities to reschedule debt and works closely with specialist treasury advisors to explore alternative best value borrowing options. No rescheduling has taken place to date in 2023/24. 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 provides a breakdown of borrowing held at 1st April 2023 and 30th September 2023. It shows that borrowing has increased by £89.9m due to the uptake of a £100m Phoenix Group loan (see 3.1) offset by annuity and EIP principal repayments on PWLB and UKIB loans during the year. The average interest rate for the portfolio as at 30th September is 2.93%.

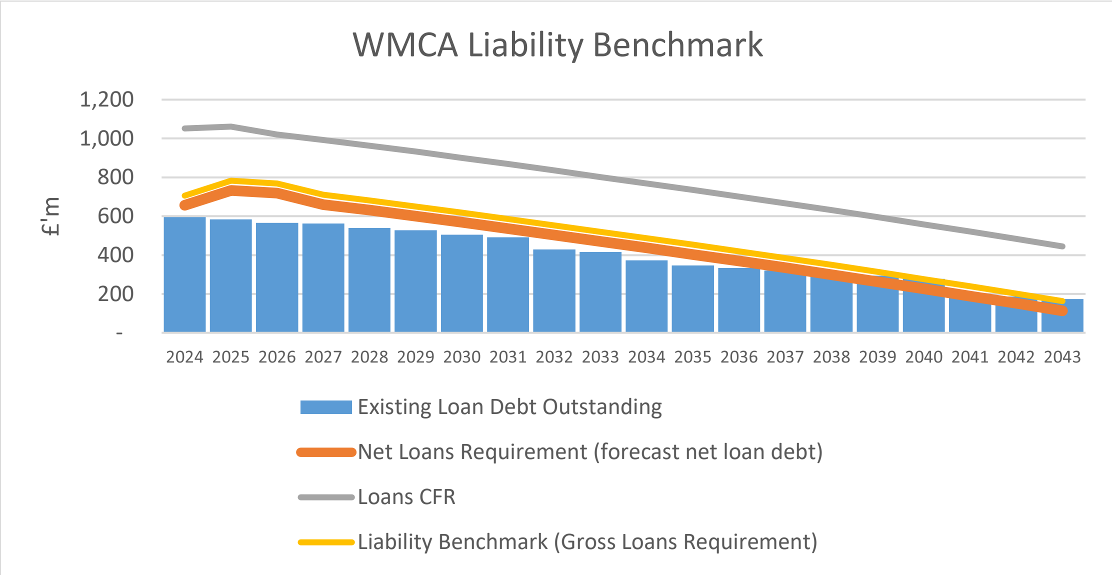
	Balance at 1 April 2023 £m	**Repaid in Year £m**	**Raised in Year £m**	**Balance at 30 Sept 2023 £m**
PWLB	488.3	9.9	-	478.4
Phoenix Group	-	-	100.0	100.0
Barclays	10.00	-	-	10.00
UKIB	9.6	0.2	-	9.4
Total Long-Term Borrowing	**507.9**	**10.1**	**100.0**	**597.8**

5 Liability Benchmark

5.1 The chart below outlines the maturity profile of existing WMCA debt. The next significant single maturity will occur in 2032 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 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:



6. Investment Activity

6.1 For the period 1st April 2023 to 30 September 2023, all short-term investments have given a return to the Authority of **£15.026m**. All treasury management activities undertaken during the year complied with the Annual Investment Strategy (contained within the Treasury Management Strategy Statement) approved by WMCA Board in February 2023. 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 In August 2023, in light of press coverage regarding WMCA's deposits with Woking Borough Council and the more widely reported funding issues at various local authorities Treasury Management Group (TMG) met and adopted the following operating restrictions on future investments with counterparties:

- No forward dated trades beyond 1 month ahead;
- Increase in rolling 3 month liquidity requirement from £20m to £50m; and
- Review of internal benchmark range of counterparty financial performance prior to trade agreements

These restrictions will be reviewed at future TMG meetings and are made under the following criteria within the approved Annual Investment Strategy:

"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."

6.3 Table 3 below shows investments currently held with authorities that have issued Section 114 notices. Where S114 notices are in place no further investments will be placed with that authority. Officers at Woking Borough Council and Birmingham City

Council have provided written assurance that fixed term deposits will be repaid on the specified maturity dates.

Local Authority	Start Date	Maturity Date	Principal Outstanding / Value £m
Woking BC	25/04/2023	25/01/2024	5
Woking BC	25/04/2023	23/04/2024	5
Woking BC	19/07/2023	17/07/2024	5

Birmingham CC	27/10/2023	29/07/2024	15
Birmingham CC	29/07/2024	23/01/2025	10

6.4 Following a review of compliance limits in September 2023 a control failure within the authority's Treasury Management software was discovered which impacted on the operating parameters for loan limits with counterparties. A software update has now taken place to ensure systems are operating as intended with additional measures incorporated to strengthen reporting, segregation of duties, and protocols/procedures for system changes and updates in future.

6.5 Table 4 below shows investments (excluding strategic investments) held **as at the 30 September 2023** totalled £955.8m, split into the following categories:

Class	Principal Outstanding £m	Average Return %
Fixed Term Deposits	921.1	3.85
Money Market Funds	34.0	5.23
Bank Call Accounts	0.7	5.25
Total Investments	**955.8**	

A detailed list of all current (as at 30^{th} September) and committed future investments is included at Appendix A. Fixed term deposits are placed across 55 local authorities and 9 banks/financial institutions.

6.6 The interest rate environment remained volatile over the first half of the financial year. In April base rate was at 4.25% with market expectations of one further rise in 2023; by June base rate had risen to 5.00% with market expectations rising to 6.25% by the close of the year; by late September base rate had risen to 5.25% but market expectations had cooled with no more than a 50% probability of a further rise.

6.7 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 2021 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[1]	£20m Minimum	Green
Price Risk	< £25m 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

1 Now increased to £50m (see section 6.2)

7.3 In addition to the above, compliance with the debt limit(s) is confirmed. WMCA debt stands at £597.8m following the uptake of a £100m Phoenix Group loan during the financial year. For clarity, the published operational and authorised limits for debt are £1,032m and £982m respectively. WMCA also has approval from HM Treasury (HMT) and Department for Levelling Up, Housing and Communities (DLUHC) to borrow for all its functions subject to operating within an agreed debt cap. The cap for 2023/24 is set at £1,234m and for 2024/25 is £1,277m.

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 2023/24 Treasury Management Strategy was as follows:

2022/23 TM Strategy	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Forecast New Debt	100	-	-	-

8.2 As indicated in 3.2, after the uptake of £100m Phoenix Group borrowing in August 2023 no further borrowing is anticipated in year. Further, following the re-forecasting of the capital programme in 2023/24 and in combination with the continuing significant level of grants received in advance, it remains the central case that no further borrowing will need to be undertaken during the period of the current medium term financial plan. 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.

8.3 Market debt alternatives remain available to WMCA; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

9. Economic Update

9.1 The most recent economic forecast (25th September 2023) from our independent treasury advisors, Link Group, sets out the view that short, medium, and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy:

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

9.2 The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
- CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

9.3 As the growing drag from higher interest rates intensifies over the next six months, the economy is likely to continue to lose momentum and potentially fall into a mild recession.

Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. The Bank of England is expected to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

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Appendix A

Investments as at 30th September 2023

Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
04/10/22	03/10/23	Broxbourne Borough Council	2.3000%	-5,000,000.00
24/10/22	24/10/23	Gravesham Borough Council	1.6000%	-5,000,000.00
24/10/22	23/10/23	Police & Crime Commissioner for Merseyside	1.9000%	-10,000,000.00
27/10/22	26/10/23	Brentwood Borough Council	2.2500%	-5,000,000.00
28/10/22	27/10/23	Falkirk Council	1.3500%	-5,000,000.00
01/11/22	31/10/23	London Borough of Enfield	3.2500%	-5,000,000.00
07/11/22	07/11/23	Close Brothers	3.9000%	-5,000,000.00
07/11/22	07/11/23	Close Brothers	4.0000%	-5,000,000.00
21/11/22	21/11/23	Lancashire Police and Crime Commissioner	2.7000%	-5,000,000.00
24/11/22	24/11/23	Lloyds Bank plc	4.9100%	-5,000,000.00
30/11/22	30/11/23	Gravesham Borough Council	2.0000%	-5,000,000.00
30/11/22	29/11/23	Uttlesford District Council	3.0500%	-7,000,000.00
01/12/22	01/12/23	Lloyds Bank plc	4.9500%	-5,000,000.00
06/12/22	05/12/23	Uttlesford District Council	1.8000%	-11,500,000.00
14/12/22	13/12/23	South Cambridgeshire District Council	3.3000%	-5,000,000.00
19/12/22	19/12/23	Basildon Borough Council	2.5000%	-5,000,000.00
19/12/22	18/12/23	Lancashire Police and Crime Commissioner	2.5000%	-10,000,000.00
23/12/22	22/12/23	Surrey Heath Borough Council	3.0000%	-10,000,000.00
03/01/23	02/01/24	Lancashire County Council	1.5000%	-10,000,000.00
04/01/23	03/01/24	Suffolk County Council	2.5000%	-5,000,000.00
09/01/23	09/01/25	Thames Valley Housing Association	4.5000%	-5,000,000.00
10/01/23	10/01/24	Standard Chartered Bank	4.8100%	-5,000,000.00
16/01/23	15/01/24	Cambridgeshire County Council	2.0000%	-10,000,000.00
16/01/23	16/01/24	Lloyds Bank plc	4.7000%	-5,000,000.00
20/01/23	19/01/24	Cooperatieve Rabobank UA	4.6300%	-5,000,000.00
23/01/23	22/01/24	Manchester City Council	4.1000%	-15,000,000.00
24/01/23	24/01/24	Close Brothers	4.5000%	-5,000,000.00
24/01/23	24/01/24	Nordea Bank AB	4.6900%	-5,000,000.00
25/01/23	24/01/24	Highland Council	4.0000%	-5,000,000.00
30/01/23	29/01/24	Lancashire County Council	1.5000%	-10,000,000.00
31/01/23	30/01/24	Blackpool Council	3.4000%	-5,000,000.00
31/01/23	30/01/24	Folkestone & Hythe Borough Council	4.0000%	-5,000,000.00
31/01/23	30/01/24	Manchester City Council	4.1000%	-5,000,000.00
02/02/23	01/12/23	Aberdeen City Council	3.9000%	-10,000,000.00
03/02/23	02/02/24	Blackpool Council	3.4000%	-5,000,000.00
03/02/23	02/02/24	East Hertfordshire District Council	3.5000%	-5,000,000.00
03/02/23	02/02/24	Gloucester City Council	2.3700%	-5,000,000.00
06/02/23	05/02/24	Cheshire East Council	4.0000%	-5,000,000.00
07/02/23	06/02/24	Worcestershire County Council	4.0000%	-5,000,000.00
09/02/23	08/02/24	Isle of Wight Council	2.3700%	-5,000,000.00
15/02/23	14/02/24	Adur District Council	4.0000%	-3,000,000.00

15/02/23	14/02/24	South Ayrshire Council	2.5000%	-5,000,000.00
15/02/23	14/02/24	Worthing Borough Council	4.0000%	-6,000,000.00
17/02/23	16/02/24	Surrey Heath Borough Council	4.6000%	-5,000,000.00
20/02/23	19/02/24	London Borough of Hillingdon	3.9500%	-5,000,000.00
20/02/23	19/02/24	Northumberland County Council	3.5000%	-15,000,000.00
23/02/23	22/02/24	East Dunbartonshire Council	4.3000%	-5,000,000.00
27/02/23	27/11/23	Brentwood Borough Council	4.1700%	-5,000,000.00
27/02/23	26/02/24	London Borough of Croydon	2.5000%	-10,000,000.00
27/02/23	26/02/24	Medway Council	2.5000%	-10,000,000.00
27/02/23	26/02/24	Monmouthshire County Council	4.5000%	-5,000,000.00
28/02/23	27/02/24	Liverpool City Council	4.5000%	-10,000,000.00
28/02/23	28/11/23	Monmouthshire County Council	4.3000%	-5,000,000.00
14/03/23	12/03/24	Adur District Council	4.7500%	-2,000,000.00
16/03/23	15/03/24	Eastleigh Borough Council	2.5000%	-10,000,000.00
20/03/23	18/03/24	Northumberland County Council	4.5000%	-5,000,000.00
22/03/23	20/03/24	West Dunbartonshire Council	4.7500%	-5,000,000.00
23/03/23	21/03/24	Wokingham Borough Council	2.5000%	-10,000,000.00
28/03/23	26/03/24	Wokingham Borough Council	2.5000%	-10,000,000.00
30/03/23	28/03/24	Windsor and Maidenhead Royal Borough Council	2.6000%	-5,000,000.00
06/04/23	05/04/24	Lloyds Bank plc	5.0700%	-5,000,000.00
06/04/23	05/04/24	TORONTO DOMINION BANK	5.0600%	-5,000,000.00
17/04/23	15/04/24	Derbyshire County Council	4.5000%	-10,000,000.00
17/04/23	06/11/23	Kingston upon Hull City Council	4.0500%	-15,000,000.00
17/04/23	17/04/24	Kirklees Council	3.8500%	-10,000,000.00
17/04/23	15/04/24	Lee Valley Regional Park Authority	4.3000%	-10,000,000.00
18/04/23	16/04/24	Gloucester City Council	4.5000%	-5,000,000.00
18/04/23	20/11/23	Liverpool City Council	4.1500%	-10,000,000.00
18/04/23	16/04/24	Suffolk County Council	4.2500%	-10,000,000.00
19/04/23	17/05/24	National Westminster Bank plc	5.0100%	-20,000,000.00
19/04/23	18/04/24	TORONTO DOMINION BANK	5.1000%	-10,000,000.00
21/04/23	19/04/24	Gloucester City Council	3.4000%	-5,000,000.00
21/04/23	19/04/24	Skandinaviska Eskilda Banken	5.2450%	-5,000,000.00
21/04/23	19/04/24	Standard Chartered Bank	5.3250%	-5,000,000.00
24/04/23	22/04/24	Medway Council	2.7000%	-10,000,000.00
25/04/23	25/01/24	Woking Borough Council	4.3000%	-5,000,000.00
25/04/23	23/04/24	Woking Borough Council	4.6000%	-5,000,000.00
27/04/23	25/04/24	Gloucester City Council	4.5000%	-5,000,000.00
28/04/23	28/02/24	Blackpool Council	2.7000%	-10,000,000.00
28/04/23	26/04/24	Brentwood Borough Council	4.6500%	-5,000,000.00
28/04/23	26/04/24	London Borough of Croydon	3.8500%	-10,000,000.00
28/04/23	26/04/24	North East Lincolnshire Council	4.8500%	-5,000,000.00
02/05/23	30/04/24	Aberdeen City Council	4.4000%	-5,000,000.00
02/05/23	01/03/24	East Hertfordshire District Council	4.0000%	-10,000,000.00
03/05/23	01/05/24	Derbyshire County Council	4.5000%	-10,000,000.00
04/05/23	02/05/24	Lancashire Police and Crime Commissioner	4.2500%	-5,000,000.00
09/05/23	07/05/24	South Ayrshire Council	4.5000%	-5,000,000.00

10/05/23	07/05/24	Basildon Borough Council	4.7000%	-5,000,000.00
15/05/23	13/05/24	Conwy County Borough Council	4.7000%	-5,000,000.00
16/05/23	16/11/23	Eastleigh Borough Council	4.2500%	-10,000,000.00
16/05/23	16/11/23	Falkirk Council	4.0500%	-5,000,000.00
16/05/23	26/04/24	Gravesham Borough Council	4.2000%	-5,000,000.00
17/05/23	17/11/23	Falkirk Council	4.0500%	-5,000,000.00
18/05/23	16/05/24	Monmouthshire County Council	4.2500%	-5,000,000.00
19/05/23	17/05/24	Aberdeenshire Council	4.2500%	-5,000,000.00
30/05/23	28/05/24	Aberdeenshire Council	4.2500%	-5,000,000.00
30/05/23	28/05/24	Windsor and Maidenhead Royal Borough Council	4.6000%	-10,000,000.00
14/06/23	12/04/24	East Hertfordshire District Council	4.3500%	-5,000,000.00
15/06/23	15/12/23	Kirklees Council	4.0000%	-5,000,000.00
16/06/23	14/06/24	Surrey Heath Borough Council	4.3000%	-5,000,000.00
21/06/23	19/06/24	Windsor and Maidenhead Royal Borough Council	2.7000%	-5,000,000.00
21/06/23	21/12/23	Worcestershire County Council	4.0500%	-5,000,000.00
22/06/23	20/06/24	Worcestershire County Council	4.1500%	-10,000,000.00
28/06/23	30/04/24	Guildford Borough Council	4.1000%	-10,000,000.00
03/07/23	01/07/24	Guildford Borough Council	4.1500%	-5,000,000.00
03/07/23	04/12/23	Kingston upon Hull City Council	4.0000%	-5,000,000.00
13/07/23	13/02/24	Ashford Borough Council	4.0500%	-10,000,000.00
14/07/23	15/01/24	Cheshire East Council	4.0000%	-5,000,000.00
14/07/23	12/07/24	Conwy County Borough Council	4.1500%	-5,000,000.00
17/07/23	16/10/23	London Borough of Barking and Dagenham	4.9500%	-5,000,000.00
19/07/23	19/01/24	Surrey County Council	4.6500%	-5,000,000.00
19/07/23	17/07/24	Woking Borough Council	5.0000%	-5,000,000.00
20/07/23	18/07/24	Cornwall Council	4.2500%	-5,000,000.00
21/07/23	19/07/24	Aberdeen City Council	4.2500%	-5,000,000.00
24/07/23	24/10/23	Cheshire East Council	4.8500%	-5,000,000.00
25/07/23	25/01/24	Eastleigh Borough Council	4.2500%	-10,000,000.00
27/07/23	29/01/24	Eastbourne Borough Council	4.1000%	-5,000,000.00
27/07/23	27/10/23	London Borough of Barking and Dagenham	4.9500%	-5,000,000.00
28/07/23	30/10/23	Birmingham City Council	4.9500%	-5,000,000.00
31/07/23	29/07/24	Darlington Borough Council	4.4000%	-5,000,000.00
31/07/23	31/01/24	Rushmoor Borough Council	4.0200%	-5,000,000.00
01/08/23	01/02/24	Ashford Borough Council	4.0500%	-10,000,000.00
01/08/23	01/11/23	Cornwall Council	4.8500%	-5,000,000.00
02/08/23	02/11/23	London Borough of Newham	4.9500%	-5,000,000.00
03/08/23	05/02/24	Kirklees Council	4.0000%	-5,000,000.00
07/08/23	06/02/24	East Dunbartonshire Council	4.0500%	-5,000,000.00
15/08/23	15/02/24	East Dunbartonshire Council	4.0500%	-5,000,000.00
17/08/23	16/02/24	Worthing Borough Council	4.0000%	-5,000,000.00
18/08/23	16/08/24	Broxbourne Borough Council	4.9500%	-1,570,000.00
22/08/23	20/08/24	Broxbourne Borough Council	4.7500%	-5,000,000.00
25/08/23	23/08/24	Derbyshire County Council	4.3000%	-5,000,000.00
29/08/23	27/08/24	Cornwall Council	4.2500%	-5,000,000.00
30/08/23	28/08/24	Broxbourne Borough Council	4.7500%	-5,000,000.00

31/08/23	29/08/24	London Borough of Newham	4.7500%	-10,000,000.00
04/09/23	04/03/24	Falkirk Council	4.0500%	-5,000,000.00
08/09/23	09/09/24	Close Brothers	5.1000%	-5,000,000.00
11/09/23	11/03/24	Ashford Borough Council	4.0000%	-10,000,000.00
20/09/23	18/09/24	Cambridgeshire County Council	4.2500%	-10,000,000.00
29/09/23	27/09/24	Cornwall Council	4.4000%	-5,000,000.00
29/09/23	27/09/24	Lee Valley Regional Park Authority	4.4000%	-5,000,000.00
29/09/23	27/09/24	Monmouthshire County Council	4.3500%	-5,000,000.00
			3.8359%	**-921,070,000.00**
	Call – 60 Days Notice	Barclays Bank plc	5.2500%	-750,000.00
			5.2500%	**-750,000.00**
	MMF	CCLA The Public Sector Deposit 4	5.1842%	-20,000,000.00
	MMF	Federated Prime Rate Sterling Liquidity 3	5.3510%	-5,000,000.00
	MMF	SSgA Liquidity Fund Select Stable GBP Inc	5.2653%	-9,000,000.00
			5.2302%	**-34,000,000.00**

Forward Commitments (December 2023 onwards)

Class	Type	Start	Maturity	Counterparty	Value
Deposit	Fixed	01/12/2023	29/11/2024	Aberdeen City Council	-5,000,000
Deposit	Fixed	15/12/2023	13/12/2024	Kirklees Council	-5,000,000
Deposit	Fixed	18/12/2023	16/12/2024	Rushmoor Council	-10,000,000
Deposit	Fixed	18/12/2023	16/12/2024	Falkirk Council	-10,000,000
Deposit	Fixed	20/12/2023	20/12/2024	Surrey Heath Council	-10,000,000
Deposit	Fixed	02/01/2024	02/01/2025	Lancashire County Council	-10,000,000
Deposit	Fixed	22/01/2024	20/01/2025	Manchester City Council	-10,000,000
Deposit	Fixed	24/01/2024	24/01/2025	Close Brothers	-5,000,000
Deposit	Fixed	25/01/2024	23/01/2025	Eastleigh Borough Council	-10,000,000
Deposit	Fixed	29/01/2024	29/01/2025	Lancashire County Council	-10,000,000
Deposit	Fixed	30/01/2024	28/01/2025	Manchester City Council	-10,000,000
Deposit	Fixed	31/01/2024	29/01/2025	Rushmoor Council	-5,000,000
Deposit	Fixed	02/02/2024	31/01/2025	Gloucester City Council	-5,000,000
Deposit	Fixed	05/02/2024	03/02/2025	Isle of Wight Council	-5,000,000
Deposit	Fixed	06/02/2024	06/02/2025	Worcestershire County Council	-10,000,000
Deposit	Fixed	14/02/2024	12/02/2025	Worthing Council	-6,000,000
Deposit	Fixed	14/02/2024	12/02/2025	Adur Council	-3,000,000
Deposit	Fixed	15/02/2024	13/02/2025	Cambridgeshire County Council	-10,000,000
Deposit	Fixed	15/02/2024	13/02/2025	Cherwell District Council	-15,000,000
Deposit	Fixed	15/02/2024	13/02/2025	Conwy County Borough Council	-5,000,000
Deposit	Fixed	26/02/2024	24/02/2025	Worthing Council	-5,000,000
Deposit	Fixed	26/02/2024	24/02/2025	Medway Council	-10,000,000
Deposit	Fixed	16/02/2024	14/02/2025	Surrey Heath Council	-5,000,000
Deposit	Fixed	26/02/2024	24/02/2025	Monmouthshire County Council	-5,000,000
Deposit	Fixed	27/02/2024	25/02/2025	Conwy County Borough Council	-5,000,000
Deposit	Fixed	21/03/2024	20/03/2025	Wokingham Borough Council	-10,000,000
Deposit	Fixed	27/03/2024	25/03/2025	Wokingham Borough Council	-10,000,000
					-209,000,000

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Audit, Risk and Assurance Committee

Date	4 December 2023
Report title	Internal Audit Update
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: Laura.Shoaf@WMCA.org.uk
Accountable Employee	Helen Edwards, Director of Law and Governance Email: Helen.Edwards@WMCA.org.uk
Report has been considered by	N/A

Recommendation(s) for action or decision:

1. The Audit, Risk and Assurance Committee is recommended to:

1.1 Note the contents of the latest Internal Audit Update Report.

2. Purpose

2.1 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.

3. Background

3.1 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.

3.2 The reports will feed into the 23/24 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 will be used to feed into the Annual Governance Statement that accompanies the Annual Statement of Accounts.

4.0 Wider WMCA Implications

4.1 There are no implications

5.0 Financial implications

5.1 There are no direct financial implications as a result of this report.

6.0 Legal implications

6.1 This report will provide the Audit, Risk and Assurance Committee with assurance that it is fulfilling its functions as set out in Schedule 5A to the Local Democracy, Economic Development and Construction Act 2009.

7.0 Equalities implications

7.1 There are no implications

5.0 Other implications

5.1 Not applicable

6.0 Schedule of background papers

6.1 None

7.0 Appendices

Appendix 1 – Health & Safety
Appendix 2 – Internal Audit structure chart

Internal Audit Update Report – 04 December 2023

1 Introduction

The purpose of this report is to bring the Audit, Risk and Assurance Committee up to date with the progress made against completing delivery of the 2023/24 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 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.

Where appropriate each report issued during the year is given an overall opinion based on the following criteria:

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

2 Summary of progress

The following internal audit reviews have been completed or are in progress.

Auditable area	ANA[1] Rating	Level of assurance obtained
Internal Audit Reviews previously reported		
Procurement Exemption arrangements	High	Limited
IR35	High	Limited
Adult Education Budget	High	Satisfactory
External Funding Arrangements	High	Satisfactory
Gifts and Hospitality arrangements	High	Limited

[1] Audit Needs Assessment rating

Auditable area	ANA[1] Rating	Level of assurance obtained
Audit Reviews completed		
Health & Safety	Medium	Satisfactory
Audits in progress		**Status**
TfWM review	n/a	In progress
Contract management	High	Scoping of audit
Adult Education Budget - Procurement	High	In progress
Key Financial Systems Budgetary Control Accounts payable Accounts receivable General Ledger Payroll Treasury Management	n/a	In progress

3. Audits completed this period

Health & Safety
A review of the WMCA's Health and Safety (H&S) arrangements has been completed as part of the 23/24 audit plan, with the scope of the audit seeking assurance that the H&S management in operation, aligns with the H&S ISO accreditation 45001. WMCA currently holds this accreditation and as set out in the obligations, we are required to undertake an internal audit programme which considers all requirements of the standard.

The outcome of the review has concluded with a **Satisfactory** audit opinion being issued. 1 recommendation has been made and has been accepted. This being:

- An online Health & Safety programme should be introduced for all temporary workers to access and complete mandatory training.

Further details are provided in the full audit report, provided as Appendix 1.

4 Follow-up of previous recommendations

Progress of audit actions resulting from previously reported audits are detailed in the table below.

Progress Monitoring Update							
Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Number Completed*
				Red	Amber	Green	
Longbridge Park and Ride Income Management and Charging Arrangements	Limited	30/03/22	30/11/22	1	2	-	3
ICT Strategy	Satisfactory	29/03/22	31/08/22	-	1	3	4
Dudley Interchange	Satisfactory	13/05/22	31/07/22	-	3	-	3

Progress Monitoring Update							
Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Number Completed*
				Red	Amber	Green	
Affordable Housing Delivery Vehicle	Satisfactory	20/06/22	30/09/23	-	1	-	1
MML	n/a	22/06/22	31/12/22	-	1	-	1
WM2041	Satisfactory	19/10/22	31/01/23	-	3	1	4
Information Assurance and Cyber Security	Satisfactory	05/01/23	30/09/23	-	5	13	17
Key Financial Systems	Substantial/ Satisfactory	03/02/23	31/05/23	-	5	3	8
Payroll	Satisfactory	09/03/23	06/04/23	-	2	5	7
Procurement Exemptions	Limited	21/06/23	31/12/23	1	2	2	3
IR35	Limited	19/06/23	30/09/23	1	4	-	2
Gifts and Hospitality	Limited	22/09/23	31/12/23	2	2	-	0
External Funding arrangements	Satisfactory	25/08/23	31/03/24	-	4	-	0
Adult Education Budget	Satisfactory	25/07/23	31/07/23	-	1	3	4

* The number of recommendations completed reflects the opinion of the auditee only and the position as at 31 October 2023.

The target date for delivery of audit actions has been met in most cases, with 4 actions currently recording a delay to delivery against the target date originally set. These include;

- **Cyber security**: A review of improved systems for the monitoring of data security has been completed with a preferred system having been determined for the automated monitoring of cyber threats. Approval is now being sought for its procurement and implementation.
- **IR35**: Additional resources have been obtained to support delivery of the 3 outstanding audit actions including the development of a framework that will set out the parameters of the contingent worker recruitment and IR35 process. The framework will enable all hirers across WMCA to administer a streamlined approach in the recruitment of contingent workers. Whilst it is anticipated the framework will be complete by December 2024, immediate action has been taken to respond to the timescales for completing IR35 requirements.

5. *Delivery of the Internal Audit plan*

Delivery of the Internal Audit plan continues to be monitored and current indications are showing that full delivery is unfortunately, unlikely to be achieved within year. This is due to the availability of temporary resources whilst we recruit and develop an in-house Internal Audit team, and the requirement to redirect resources to the review of the TfWM Capital programme and other unexpected matters being brought to Internal Audit's attention. Details of these are provided in the report entitled 'Update on Whistleblowing Claims'.

A review of the 23/24 Internal Audit plan is now in progress to reassess and determine if there is any change in the risk status of the planned audits in order for us to prioritise those that represent the highest risk to the organisation, and to identify those where operational processes have changed in-year resulting in the audit no longer being relevant or can be deferred to the 24/25 Internal Audit plan. The outcome of this will presented to the next meeting of this committee in January '24.

As previously requested by Committee, the structure of the new Internal Audit team is provided as appendix 2 for information.

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West Midlands
Combined Authority

Internal Audit Report:

"Health and Safety Review"

Report Date: **16 November 2023**

Report Distribution: **Anne Shaw, Executive Director, TfWM**
Pete Bond, Director of Integrated Transport Services
Ben Gittings, Health & Safety Manager
Lois Stewart, OD and Engagement Manager

WMCA Internal Audit Services

1. Executive summary

Introduction and Background

1.1 A review of the WMCA's Health and Safety management system was included as part of the approved internal audit plan for 2023-2024. The purpose of the review is to seek assurance that a health and safety management system is in place that aligns to ISO 45001. ISO 45001 is an International Standard that specifies requirements for an occupational health and safety (OH&S) management system, with guidance for its use, to enable an organisation to proactively improve its OH&S performance in preventing injury and ill-health.

1.2 ISO 45001 is intended to be applicable to any organisation regardless of its size, type and nature. All of its requirements are intended to be integrated into an organisation's own management processes. A previous review was carried out by Internal Audit as part of the 2018-2019 internal audit plan with an overall conclusion of satisfactory assurance.

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 that a robust health and safety management system is in operation for the WMCA that aligns with ISO 45001 to effectively manage health and safety risks across the organisation.
System Risks:	The following system risks were identified: • 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 of 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.
Scope:	The following aspects where covered within the scope: • An adequate Occupation Health and Safety (OH&S) policy is in place along with OH&S objectives. • The OH&S management system has established processes in place which considers risks and opportunities and its legal and other requirements. • The OH&S management system has determined the OH&S risks and has effective controls in place over them. • The OH&S management system has effective controls over legal and other requirements. • The OH&S management system helps to increase awareness of OH&S risks (Training program rollout to staff). • The OH&S management system is integrated into the organisation governance and risk management structure.

	• OH&S performance is evaluated and monitored with appropriate action undertaken. • Employees take an active role in OH&S matters. • Review of oversight and governance arrangements.

Overall conclusion

Our conclusion is that the framework is strong, and compliance is Good. Our overall conclusion based on Internal Audit Standard Assurance Matrix, is that the system is “Effective”. This means 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 exists, 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 in section 2 below, 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 one amber issue (See section 2 below) where improvements could be made, arising from the following issue which have been categorised to reflect those issues relating to both the framework and compliance with the framework:

Training

- At present, it is mandatory for all staff whether they are permanent or employed on a temporary basis and have access to the WMCA's network to complete online mandatory training, which includes Health and Safety training. It was noted during the reivew that not all contractors undertake this training, and it is unknown the number of staff this affects.

Examples of good practice identified

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

- All Health and Safety documentation is available on the staff intranet, and this documentation is kept up to date and in relevant sections of the intranet, making it easy to find the applicable document.
- The Health and Safety Policy is fully compliant with the ISO standard and details the objectives and strategic priorities in order to develop a positive health and safety culture. In line with the standard the policy is available as documented information, communicated within the organisation, available to interested parties and is relevant and appropriate. The policy also clearly sets out the responsibilities and duties of all employees, committees, departments and groups as well as outlining the arrangements in place for implementation.
- The Safety Management System and associated documentation detail the processes in place which considers risks and opportunities and its legal and other requirements. The document describes the framework by which the safety management system is operated and also provides a high-level description of the policies and procedures in place. The system details the responsibilities for health and safety as well as providing an over-arching Health and Safety Reporting Structure. There is also an index for all appropriate guidance documents.
- The Strategic Risk Register contains a detailed risk in relation to Health and Safety with cause and effects as well as several key controls. The Health and Safety team maintain a risk assessment register as well as records of all incident reports which are used to provide reports for performance and monitoring purposes. Also in place is an audit and inspection programme for all sites.

- The organisation has in place a legislation register and is updated twice a year in April and October and references the specific section of the Safety Management system, and also the specific legislation, code of practice and related resource. There are several pieces of legislation, with the main ones being the Health and Safety Act of 1974 and the Management of Health and Safety Regulations 1999.
- The Health and Safety Management System is fully integrated within the organisational and governance structure. There are a number of committees responsible for providing leadership in the recognition and management of principal health and safety risks, and in the continuous improvement in health and safety performance to their relevant business areas. These boards and committees are detailed within the reporting and committee structure. This structure also identifies the reports relevant to Health and Safety and outlines responsibilities for all boards and committees.
- There are a number of reports produced on an annual, quarterly and monthly basis. An annual health and safety report is produced and summarises the main activities relating to the promotion and management of health and safety outcomes during the previous year. The monthly reports include an overall update of WMCA Health and Safety performance, as well as specific reports relating to transport and programme delivery. There is also a quarterly Health and Safety update which provides a summary of progress against the annual delivery plan. All reporting contains statistics, performance indicators and relevant analysis.
- The Safety Management System and associated documentation clearly details employee involvement in Health and Safety as per the ISO standard. The Health and Safety Policy sets out the responsibilities for employees in regards to Health and Safety as well as the role of safety representatives to provide representation for employees and to actively encourage co-operation between employer and employee. The Safety Management System also details the communication and consultation between the WMCA and employees, and this two way communication structure ensures that Communications on Health and Safety matters between employees and their managers takes place on an ongoing basis.

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.	
Findings: At present, it is mandatory for all staff whether they are permanent or employed on a temporary basis and have access to the WMCA's network to complete online mandatory training, which includes Health and Safety training. It was noted during the review that not all contractors undertake this training, and it is unknown the number of staff this affects.	
Implications: 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 of Programme Delivery construction activity.	
Recommendations: An online programme will be introduced for all temporary workers to access and complete mandatory training.	
Agreed Actions/Management Comments: Agreed	
Responsible Officer: Lois Stewart OD and Engagement Manager	**Target Date:** January 2024

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	16th November 2023
Exit meeting	
Final issued	
ARAC reporting date	
ARAC meeting date	

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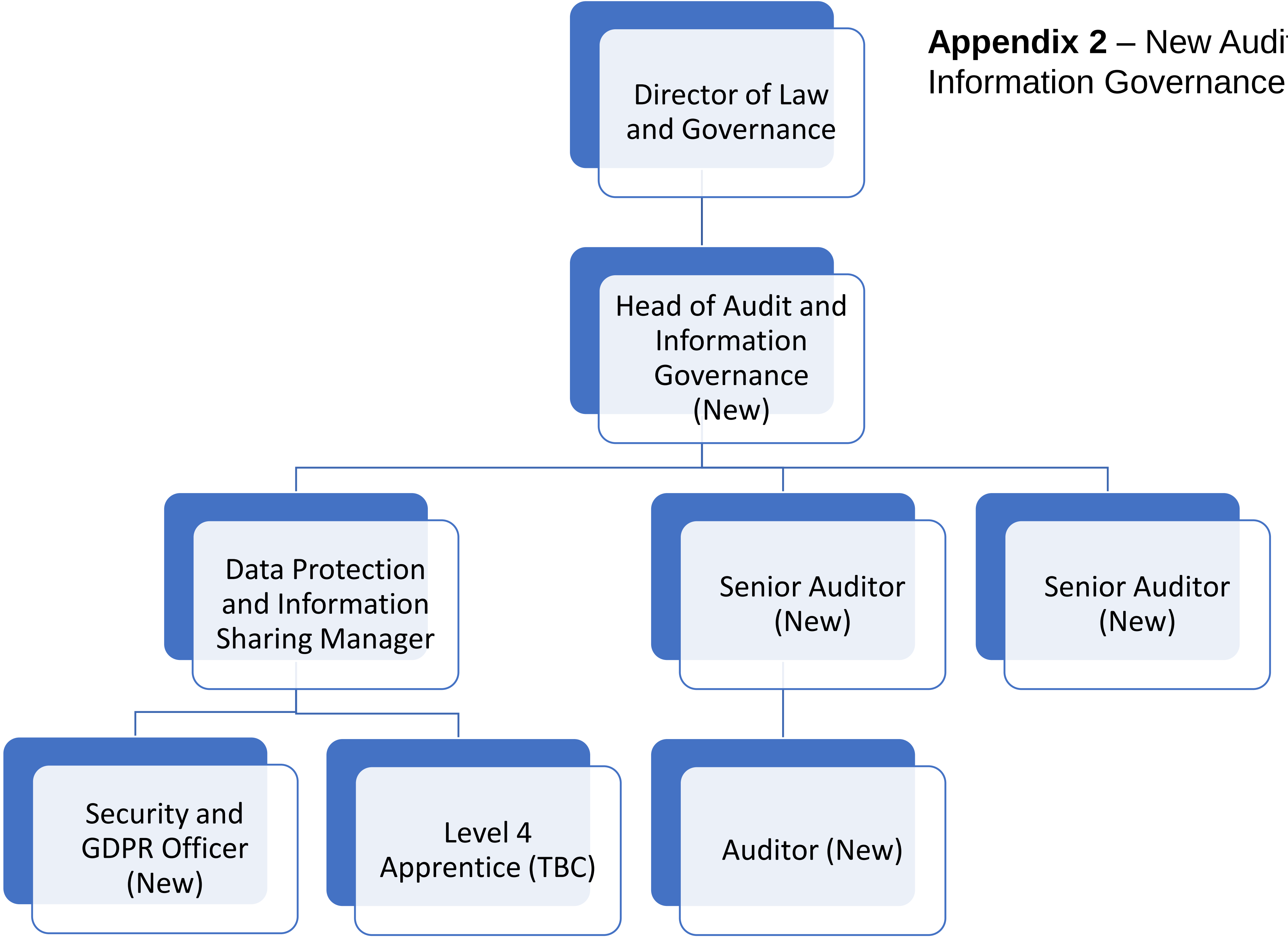
Appendix 2 – New Audit and Information Governance Structure



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West Midlands Combined Authority

Audit, Risk & Assurance Committee

Date	Monday 4th December 2023
Report title	Financial Due Diligence checks on suppliers in response to Rail Package 1
Accountable Chief Executive/TfWM Director	Laura Shoaf, Chief Executive, West Midlands Combined Authority. Email: laura.shoaf@wmca.org.uk Tel: (0121) 214 7444
Accountable Employee	Linda Horne, Executive Director of Finance and Business Hub, West Midlands Combined Authority. Email: linda.horne@wmca.org.uk Tel: (0121) 214 7508
Report has been considered by	Linda Horne, Executive Director of Finance and Business Hub, Section 151 Officer

Recommendation(s) for action or decision:

The Audit, Risk & Assurance Committee is recommended to:

(a) Note the financial due diligence process carried out when awarding contracts.
(b) Note the ongoing financial checks and mitigations in place for future contract awards.

1. Purpose

1.1 To update ARAC on the financial due diligence procedures that were carried out at contract award for Buckingham Group Contracting Limited (BGLC) in June 2021.

1.2 To provide update on what procedures are in place to manage risk and keep an update on suppliers post contract award.

1.3 To update ARAC on the risk outlined in the WMCA Strategic Risk update which was presented to ARAC in October 2023.

2. Background

2.1 The New Stations Package 1 Full Business Case was approved at WMCA Board on 15th January 2021, with a total project budget of £55.84m being confirmed.

2.2 Following a compliant tendering process, the construction contract for Rail Package 1 was awarded to BGCL in June 2021.

2.3 BGCL submitted a notice to appoint administrator in August 2023, and formal appointment of an administrator, Grant Thornton UK LLP, was made on 4th September 2023.

2.4 On 4th September 2023, Kier Group Plc announced that it had agreed to acquire substantially all the rail assets from Buckingham Group Contracting Limited and their HS2 contract supplying Kier's HS2 joint venture, EKFB, for a total consideration of £9.6m.

2.5 WMCA Board were presented with a project update on New Stations Rail Package 1 on 13th October 2023 and were asked to note the insolvency and administration proceedings of the principal contractor for the New Stations Package 1 project, BGCL. In addition, were asked to note the decision made at WMRP Board on 28th September 2023 to novate the Package 1 main works contract to Kier Integrated Services Limited.

3. Financial Implications

3.1 A summary of financial due diligence checks on BGCL has been outlined below. The timeline of events leading up to the contract award in June 2021, and result of the financial checks and credit scores are also outlined in Appendix 1.

3.1.1 As part of the procurement process leading up to the contract award, financial tests were carried out on 3 years financial statements using the standard WMCA financial due diligence template which is used for all new suppliers. In addition, credit checks were carried out.

3.1.2 As part of the Package 1 award process, these checks were carried out on the 2017, 2018 and 2019 audited financial accounts. The output results passed all criteria. In addition, the credit safe report generated a score of 96-Grade A indicating very low risk.

3.1.3 BGCL also submitted bids in the tender processes for both University Station and Rail Package 2. The same checks were carried out, in both separate processes with the same results, passing all test criteria.

3.2 It was noted that the financial difficulties that were experienced by BGCL which ultimately led to the company filing for administration were not within the rail division itself but were a result of other financial pressures within other aspects of the BGCL business, namely sport and leisure.

3.3 The rail division of BGCL was sold and acquired by Kier Group Plc for £9.6m. Prior to the recommendation to novate the construction contract to Kier Group Plc, which was approved at WMRP Board on 28th September 2023 and notified to WMCA Board in October 2023, appropriate financial checks were also carried out on Kier Group Plc and Kier Integrated Services Limited.

3.4 A summary of the results from the assurance checks are outlined in Appendix 2.

3.5 It was noted that Kier Integrated Services Ltd, a subsidiary of Kier Group Plc is the legal entity noted on the novation agreement. The financial checks for Kier Integrated Services did not pass, however, a Parent Company Guarantee with Kier Group Plc was obtained as part of the novation agreement to provide additional security for WMCA.

3.6 In addition to financial checks carried out on Kier Group Plc prior to approving the decision to novate, a value for money exercise to compare options between either continuing to novate or terminating/reprocuring was carried out and was outlined in the WMCA Board report in October 23.

3.7 The situation experienced with BGCL going into administration was unfortunate and a result of unforeseen circumstances which were outside of WMCA control. Given the recent market fluctuations due to external global economic and political factors, WMCA will inevitably have on-going exposure risk.

3.8 Prior to the BGCL situation WMCA had recently reviewed and refreshed its existing financial due diligence processes to reflect current best practice and ensure that they remain fit for future. These are an integrated part of any procurement process and allow for any identified financial risks to be considered. This may include the use of mitigations strategies such as parent company guarantees or performance bonds.

3.9 Once contracted, ongoing supplier due diligence is undertaken on the basis of risk. The vast majority of goods and services are paid in arrears of receipt which limits the financial exposure of WMCA in the event of an administration in terms of recovering monies. Advance payment profiles require sign off by S151 to ensure that risks have been assessed and exposure limited, e.g. paying in advance by 1 month, regular performance monitoring meetings.

3.10 There are limited actions that any organisation can take to protect itself against the delivery risks associated with supplier financial failure, which include cost exposure for full projects. However, WMCA's organisational response to the BGCL situation was swift across all areas of the business to ensure that decision making was informed and timely to reach the best possible outcome for the ongoing project.

4. Legal Implications

4.1 The construction sector is notorious for the financial volatility of its construction companies as such entities are usually little more than a commercial cash flow hub for the receipt and distribution of income to third parties.

4.2 The key to insolvency is a policy that allows action by the Client to take early or timely action to control and mitigate the consequences of insolvency.

Forewarning of insolvency

4.3 Although insolvency events occur suddenly, a client should by its project management teams use insolvency indicators in their administration and supervision of a project, the usual indicators of a contractor's financial difficulties are:

- Reduced or absent site activity

- Productivity decline
- Programme delay
- Failure to close out the works
- Failure to pay sub-contractors
- Other clients' experience with the contractor
- Increase in defects picked up on inspections during the carrying out of the works
- Rumours from site, mutterings about not being paid on time or at all
- Contractor requests for changed/improved payment terms, including advanced payments

4.4 Once a picture of potential difficulties builds up, the project administration should put the project on an escalated level of supervision to manage the period before any insolvency formally happens.

Contractual obligations

4.5 It is important that the contract is properly administered in order to use the mechanisms in the contract that will enable the client to limit the impact of any insolvency such as requiring in the building contract:

- full administration of the contract
- requiring the contractor's application for payments to include evidence of payment to date of subcontractors and the right to temporary withholding of further payment to the contractor if such evidence is not forthcoming.
- security from the Contractor such as Parent Company Guarantees and Performance Bonds <u>at contract (and not leaving it post contract)</u>
- inclusion of terms for retention in the contract
- inclusion within the contract of prior written approvals from the Client for all selection of subcontractors and sight of the subcontract terms
- requiring vesting certificates where payment is made for materials in advance of delivery to site
- collateral warranties on appointment of subcontractors to be received <u>at contract</u> and not leaving it post contract
- clear provisions requiring the contractor to provide all documentation for a project on an insolvency event and a requirement to assign the benefit of subcontracts to the client (to include provisions for transfer of data and software if BIM is used)
- asking for annual confirmation of insurances being maintained

4.6 In this case, the contract was correctly drafted by Addleshaw Goddard but it would be worth checking that the project management team does implement the terms.

Appendix 1 – timeline of events leading up to BGCL contract award.

Date	Check / Evaluation	Project	Result
October 2019	Financial PQQ Evaluation	University Station	Pass all tests in all 3 years 2016/2017/2018
September 2020	Credit Safe Report	Rail Package 1	Score = 96 [A] Very Low Risk
September 2020	Financial PQQ Evaluation	Rail Package 1	Pass all tests in all 3 years 2017/2018/2019.
September 2021	Credit Safe Report	Rail Package 2	Score = 96 [A] Very Low Risk
September 2021	Financial PQQ Evaluation	Rail Package 2	Pass all tests in all 3 years 2018/2019/2020.

Appendix 2 – Summary of Kier Group Plc financial due diligence checks

Kier Group Plc (KG Plc): £3.1bn Turnover 2022

- Credit Score: 67 Grade B Low Risk
- 2023 Full Year trading update ahead of publishing Full Year 2023 results on 14/09/2023 – released 20/07/2023.
- Half Year to December 2022 (unaudited) – statement released 09/03/2023 - Pass Flag as Risk
- Full Year to June 2022 (audited) – Pass Flag as Risk.
- Full Year to June 2021 (audited) – Pass Flag as Risk.

Kier Transportation Limited (KT Ltd): 532m Turnover 2022

- Credit Score: 100 Grade A Very Low Risk
- Full Year to June 2022 (audited) – Pass.
- Full Year to June 2021 (audited) – Pass.

Kier Integrated Services Limited (KIS Ltd): £593m Turnover 2022

- Credit Score: 93 Grade A Very Low Risk
- Full Year to June 2022 (audited) – Fail on Liquidity grounds.
- Full Year to June 2021 (audited) – Fail on Liquidity grounds.

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Audit, Risk & Assurance Committee

Date	4 December 2023
Report title	Single Assurance Framework (SAF) Assurance Performance Report – July to September 2023
Portfolio Lead	
Accountable Chief Executive/WMCA Director	Linda Horne – Executive Director of Finance & Business Hub
Accountable Employee	Joti Sharma – Head of Programme Assurance & Appraisal
Report has been considered by	WMCA Executive Board – November 2023

Recommendation(s) for action or decision:

Read this report and note its contents for information. The report provides reassurance that the WMCA continues to support embedding the Single Assurance Framework (SAF) arrangements at WMCA (this is to support increase in project management capability within the organisation).

Audit, Risk & Assurance Committee (ARAC) is recommended to:

This report follows on from the Single Assurance Framework (SAF) update shared with Audit, Risk & Assurance Committee (ARAC) in September 2023. ARAC had requested that Programme Assurance & Appraisal Team present assurance thematic performance information on a quarterly basis. The report focuses on Programme Assurance and Appraisal Team activity from July to September 2023 (Q2 2023).

1. Purpose

This report details thematic programme assurance information from WMCA projects that have been assured through the Single Assurance Framework (SAF) – this applies to projects funded through devolved investment funds only. This report will help demonstrate progress being made by projects and WMCA directorates transitioning to new SAF assurance and governance arrangements.

2. Background

Single Assurance Framework (SAF) Implementation Progress

2.1 As reported to ARAC previously, the WMCA SAF has been implemented across all WMCA directorates and the SAF Framework document has been updated to reflect national guidance and approved by WMCA Board accordingly to meet annual refresh expectations. This was to mitigate the risk of non-compliance to mandatory devolution commitments. If this risk was to materialise it would be a WMCA Strategic risk that could potentially impact our reputation with central government and secure future additional money to deliver major projects. The SAF is a risk mitigation tool designed to protect public funding and increase confidence that project outcomes can be achieved through approving use of investment grant funding.

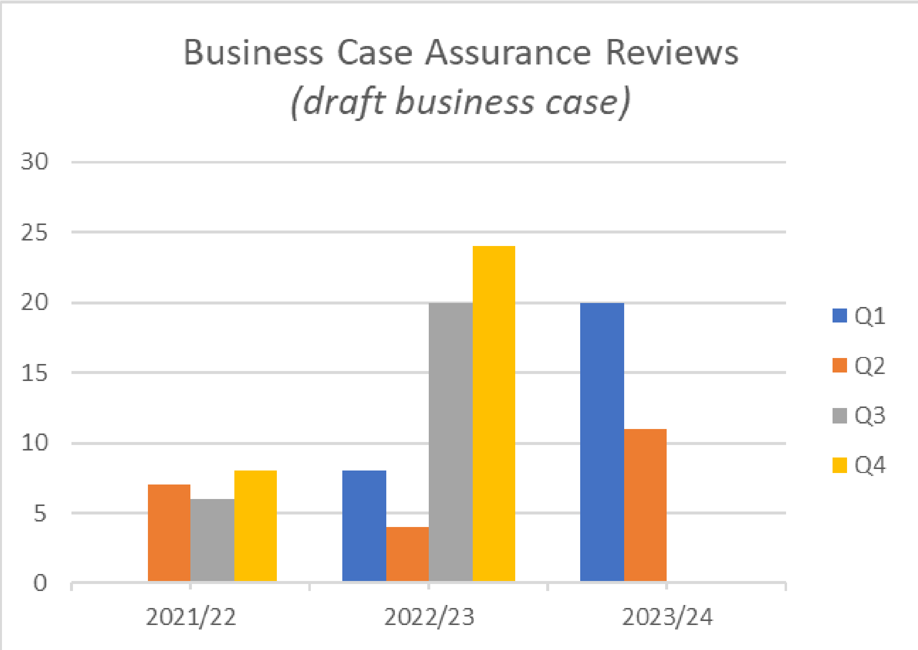
2.2 The tables below summarise Programme Assurance and Appraisal Team activity between October 2022 and September 2023. It demonstrates engagement across all WMCA Directorates and an overall increase in activity over time.

REPORTING PERIOD	DIRECTORATE/ EXTERNAL ORG.	Business Case Assessment (BCAT)	Health Check	Risk & Investment Appraisal	Change Requests
Oct – Dec 2022 (Q3)	TfWM	15	0	11	4
	Strategy, Innovation & Net Zero (SINZ)	1	0	1	1
	Economy, Skills & Communities	1	37	2	1
	Investment Programme	3	0	3	7
2022 Q3 TOTAL		**20**	**37**	**17**	**13**
Jan – Mar 2023 (Q4)	TfWM	13	0	9	**1**
	Strategy, Innovation & Net Zero (SINZ)	5	0	3	0
	Economy, Skills & Communities	4	0	4	6
	Housing, Property & Regeneration	1	0	1	0
	Investment Programme	1	0	0	0
2022 Q4 TOTAL		**24**	0	**17**	**7**
Apr – Jun 2023 (Q1)	TfWM	5	1	7	**10**
	Strategy, Innovation & Net Zero (SINZ)	4	1	6	0
	Economy, Skills & Communities	10	0	10	0
	Housing, Property & Regeneration	1	0	1	0
	Investment Programme	0	0	0	1
2023 Q1 TOTAL		**20**	**2**	**24**	**11**
July – Sept 2023 (Q2)	TfWM	4	0	4	**3**
	Strategy, Innovation & Net Zero (SINZ)	3	0	2	2
	Economy, Skills & Communities	2	0	2	1
	Housing, Property & Regeneration	2	0	3	0
	Investment Programme	0	0	0	1
2023 Q2 TOTAL		**11**	0	**11**	**7**

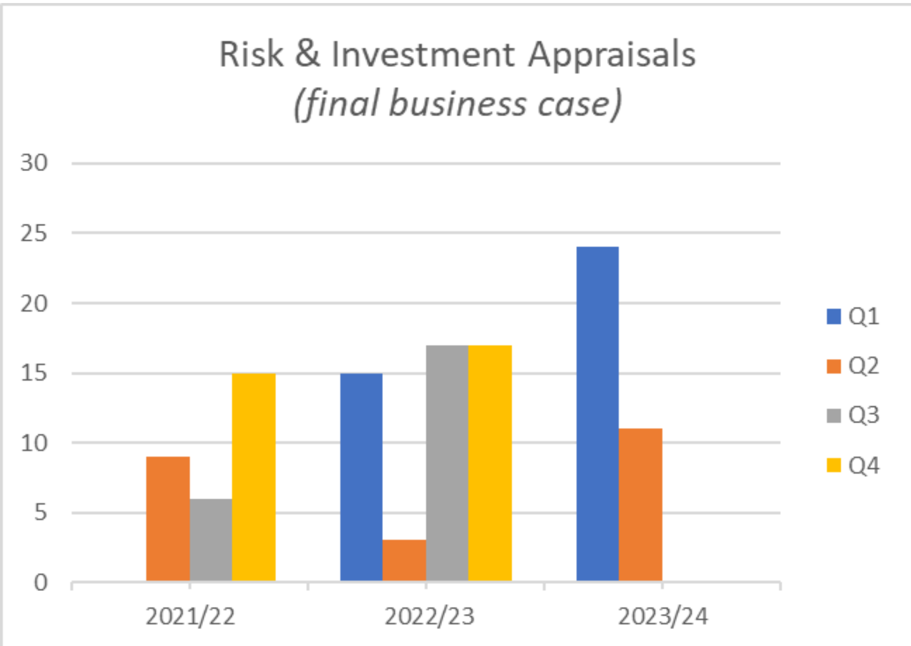
*Note that the Investment Programme projects are already in delivery and most of the funding has been committed and therefore those projects will not be going through the SAF at present time, the projects have been through WMCA Assurance already and are in delivery.

High Level SAF Trend Observations

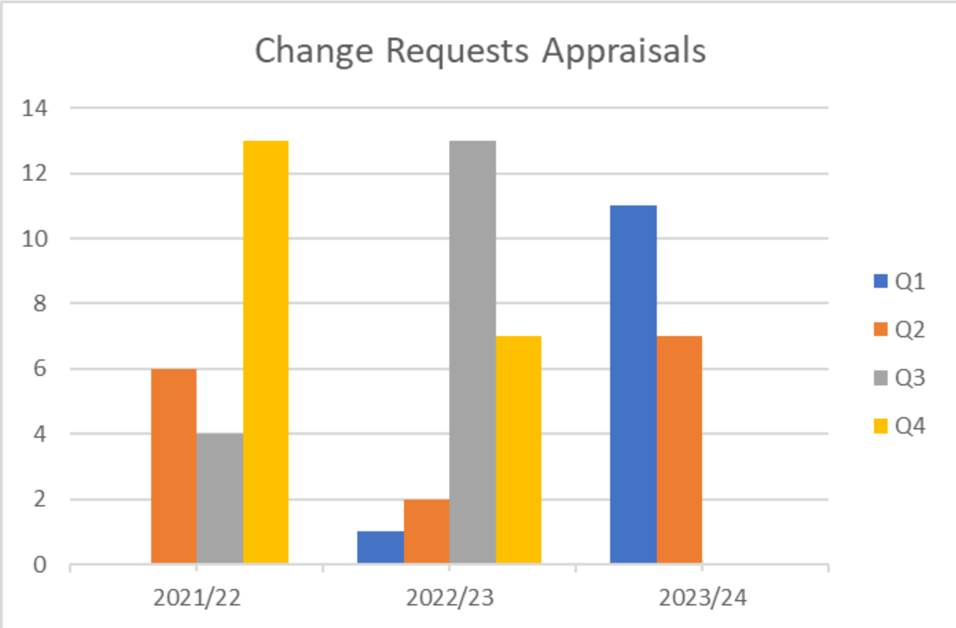
2.3 The number of Business Case Assurance Reviews (BCATs) completed has decreased 45% in this quarter, however there was an increase of 267% compared to the same period in the last financial year. This has helped drive improvements to draft business cases prior to them being submitted for formal Risk & Investment Appraisal. Most importantly the assurance activity and strengthening of the draft business cases reduces WMCA risks exposure at the point when the formal investment and risk appraisal is undertaken on the final business case.



2.4 The number of Risk & Investment Appraisals undertaken by the team decreased by 54%in this quarter. However, there is an increase in comparison to the same period last year (by 267%).



2.5 The number of Change Requests undergoing formal independent Risk & Investment Appraisal decreased by 36% in this quarter and an increase by 250%% compared to the same period in the last financial year.

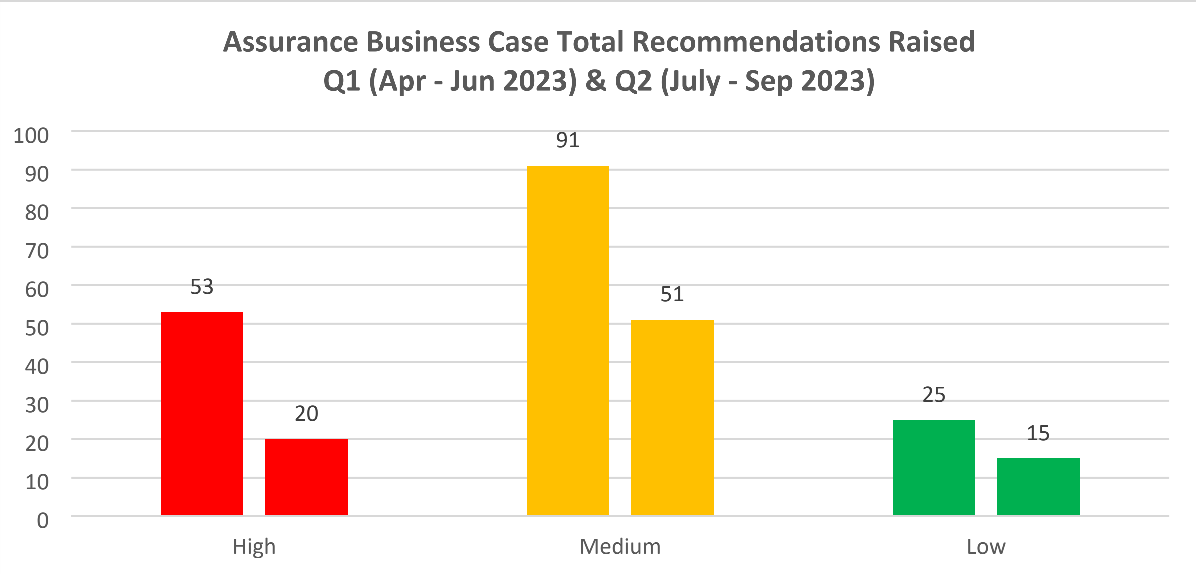


Assurance Performance Analytical Insights Q2 (July – Sept 2023)

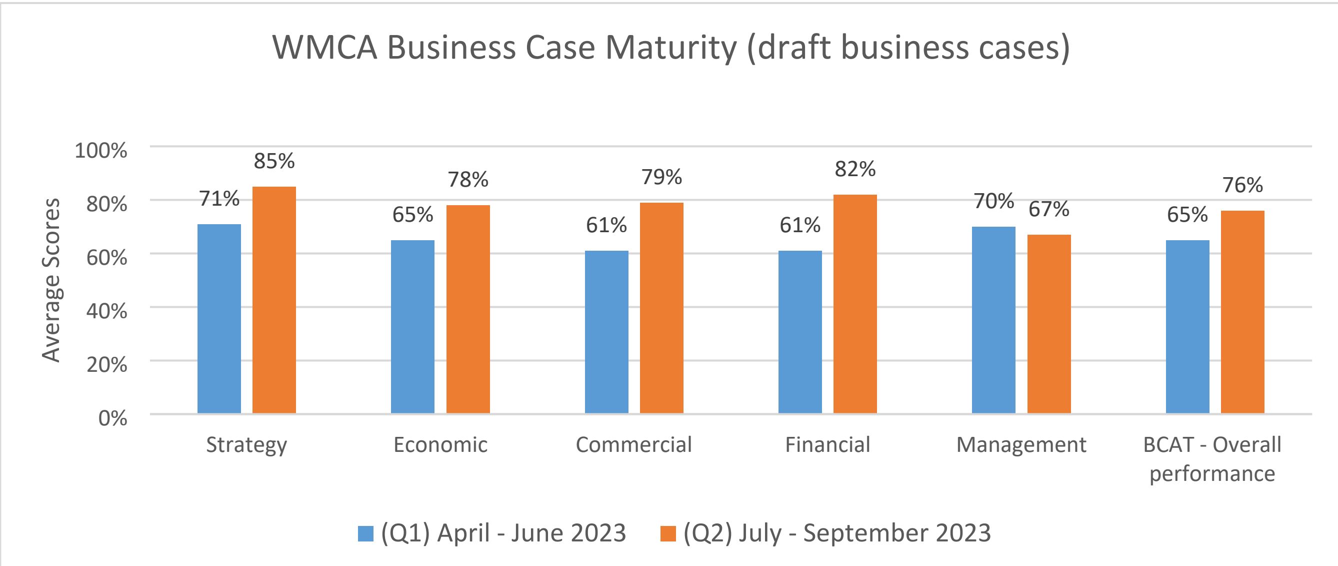
3. Business Case Maturity Assurance Reviews (BCAT)

3.1 In Q2 (July – Sep) 11 Business case maturity assessments were undertaken in this period, with 20 high priority recommendations raised. This is compared to 20 business case maturity assessments completed and 53 high priority recommendations in Q1 (Apr - June.) – The variation seems starker as Q1 was a busier than normal period with a new programme being initiated.

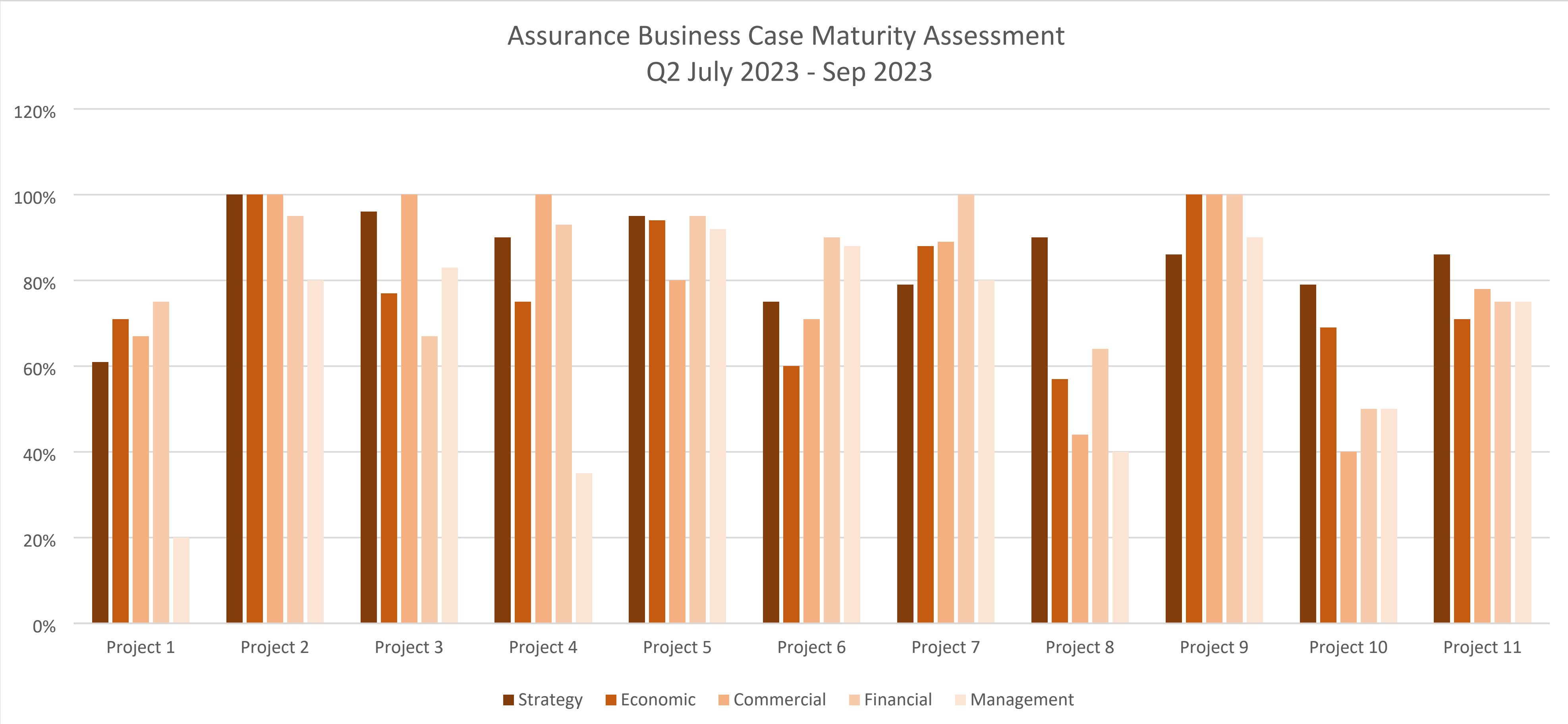
3.2 The following graph shows the trend during the period April – June (Q1) & July – September 2023 (Q2). There were fewer overall recommendations as there were fewer business case reviews. However; encouragingly, the trend demonstrates there are fewer high priority recommendations in comparison to medium and low priority overall. The formal risk and investment appraisal review will confirm to decision makers how many of the recommendations have been accepted and closed out. Greater focus is given to ensure red rated recommendations have been closed out by the time a final business case is presented for approval or there is a plan to address the risk raised.



3.3 The following chart compares business case maturity in the current and previous quarter. It demonstrates that overall business case maturity (draft business cases) increased during July–September (Q2) compared to the previous quarter.



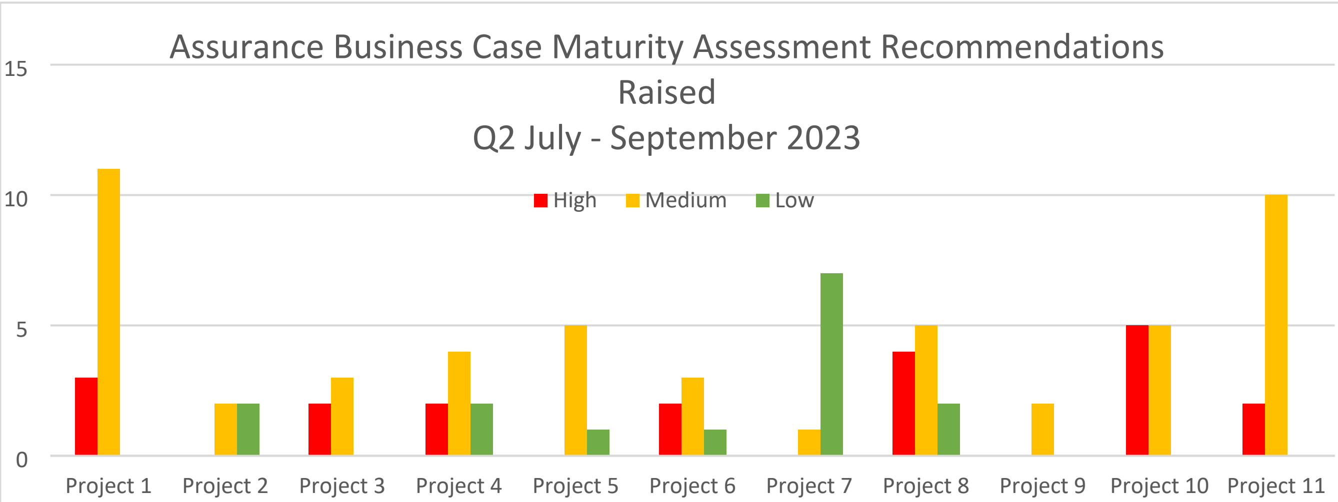
3.4 The following chart provides a detailed overview of business case maturity by project against the 5 dimensions stipulated in HMT Green Book 5 Case Model:



3.5 The difference between 3.3 and 3.4 is that the variance in business case maturity and the overall trend assessment in this area is difficult, several external factors could have an impact. At a macro level, the graph demonstrates that there were highly developed and mature business cases and likewise there were some much lesser developed business cases. The average trend is positive and the Programme Assurance & Appraisal team continue to work with Directorates were lesser developed business cases are produced to mitigate some risk before approval is sought.

3.6 Key Observations between Q1 & Q2 – Assurance Recommendations: Comparison of last 2 quarters

The number of business case recommendations decreased in Q2 compared to Q1 because the number of recommendations in Q1 was significantly higher. This was largely due to the project business cases referred to in 3.4 and 3.6. As a reminder these are recommendations raised on the draft business cases. The business cases would have been strengthened by the time the final business case was submitted with risk and investment appraisal.



The number of business case recommendations decreased in Q2 compared to Q1 because the number of business case maturity assessments undertaken in Q2 decreased. This resulted in fewer recommendations being raised. As a reminder these are recommendations raised on a draft business case. All business cases will have been strengthened following the Assurance assessment prior to the strengthened business case being submitted for risk and investment appraisal.

Project & Programme Health Check Reviews

3.7 A Programme of risk-based Health Checks was approved by WMCA Senior Leadership Team in March 2023. This will be implemented throughout 2023-24 to help drive organisational improvements in Project and Programme Management activity. It is anticipated that approximately 10 health checks will be undertaken throughout the year. In Q2, whilst health checks have been planned and are ongoing, none were completed during the period. 3 Health Checks are planned to be completed in Q3.

Risk & Investment Appraisals Reviews

3.8 A total of 11 Risk & Investment Appraisals were completed by the Appraisal team during the period, in comparison to the **24** undertaken in the last reporting period. A summary of these is detailed in the table below:

Funding Source	Business Cases Appraised
Brownfield Housing Fund	3*
City Region Sustainable Transport Settlement (CRSTS)	3
Commonwealth Games Legacy Fund (DCMS)	2
BEIS	1
Department for Levelling Up, Housing and Communities (DLUHC)	1
Department for Education	1
Land Fund	1*
National Competitive Fund	1*
Total	**11**

* The Housing PBC contains funding from three sources

3.9 Many business cases received during this period were <£5m with approval delegated to Executive Director or Executive Board. The Appraisal team continue to recommend most business cases for approval, though with some conditions to address weaknesses where this is felt appropriate. The appraisal team felt that adequate planning and risk mitigations were in place to provide confidence to commence project delivery. The most common causes of risks being identified are:

- Misalignment between government delivery timescales/documentation requirements and SAF is resulting in the identification of both delivery risks and governance risks
- Lack of input/engagement from internal stakeholders when developing the business case, leading to potential weaknesses in project delivery
- Limited knowledge and skills within WMCA to produce effective economic appraisals
- Weak linkage between business cases and delivery, with a need to strengthen monitoring and evaluation planning during business case development
- An increase in economic and financial risks as a result of the current external climate and BCC issuing a S141

Change Request Reviews

3.10 A total of 7 Change Requests appraisals were processed by the Programme Risk & Investment Appraisal team during the period. The change trends include time extensions as a result of the City Region Sustainable Transport Settlement (CRSTS) re-basing activity and 'opportunity' changes where additional government funding has been identified to increase scope of existing projects. Improvements have been made to the Change Request Form to ensure applicants identify not only the 'change type' (cost, time, scope) but also a single root cause, this will improve the management information within this area.

3.11 2 Change Requests have been received from Transport for West Midlands, this is due to the aforementioned CRSTS re-profiling activity. Both changes were for minor time extensions or to re-profile approved expenditure. A further 2 Change Requests were received from the Investment Programme to re-baseline project milestones. All Change Requests were reviewed by the Appraisal team prior to approval being sought.

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

Funding Source	**No. Change Requests Appraised**
City Region Sustainable Transport Settlement (CRSTS)	2
BEIS	2
Investment Programme	2
Other	1
Change Request Type	**No. Change Requests by type (note, some changes fall into multiple change types)**
Scope (Objective Changes)	6
Value (Cost)	4
Schedule (Time)	2
Change Request Root Cause	**No. Change Requests by type (note, some changes fall into multiple root causes)**
Governance	1
Economic	0
Reputation	0
Financial	2
Opportunity	2
Operations	1
Delivery	3
Political	1

Change Requests Appraised		**Time**	**Cost**	**Scope**
Q3 – Oct – Dec 2022	**12**	10	4	6
Q4 – Jan – March 2023	**9**	5	5	3
Q1 – April – June 2023	**11**	8	0	3
Q2 – July – Sept 2023	**7**	2	4	6

4 Assurance Performance Trends & Themes Identified (July – September 2023)

Key emerging assurance themes emerging from this reporting period are:

a. Referring to tables presented in 2.2 to 2.5 demonstrates a positive trend that the number of business case assurance reviews, health checks, programme risk & appraisal reviews and change requests have all increased significantly since SAF Transition across all devolved Investment funds.

b. There was less activity in this area in the last quarter however this was expected due to the summer holiday period, and also the largest transport programme being re-programmed with Local Authority partners. This reduced the number of business cases expected during this time, but they have started to come through SAF now in the current quarter.

c. Overall, the number of red assurance recommendations on the draft business cases is less in comparison to amber and green rated recommendations.

d. The programme assurance insights shared in this report are being split by Directorate are also being shared with Delivery Teams by Programme Assurance & Appraisal team on at least a quarterly basis. These meetings will focus on good practice and areas for improvement.

5 Executive Board Support

5.1 The SAF Implementation project's SRO is the Director of Finance. The Executive receive monthly progress reports of the SAF Implementation project via the Executive Director of Finance.

6. Financial Implications

No implications.

7. Legal Implications

No implications.

8. Equalities Implications

No implications.

9. Inclusive Growth Implications

No implications.

8. Geographical Area of Report's Implications

All areas.

9. Other Implications

N/A

10. Schedule of Background Papers

N/A

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***
30 January 2024	**19 January**	• Internal Audit Report (Helen Edwards) • Transport Programme Capital Governance Review (TfWM) Findings (Helen Edwards) • 2024/25 Treasury Management Policy, Strategy and Practices (Mark Finnegan) • Draft Internal Audit Plan (Helen Edwards) • Strategic Risk Register (Peter Astrella) • Draft Internal Audit Plan (Julia Cleary) • Annual Report Information Governance (Helen Edwards)	**16 January**	**11 January**
11 March 2024	**29 February**	• Internal Audit Report (Helen Edwards) • Assurance Performance Report (Joti Sharma) • Annual Health & Safety Report (Ben Gittings) • Approval of Draft Internal Audit Plan (Helen Edwards)	**23 February**	**20 February**

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***
		• Annual Governance Statement (Helen Edwards) • Update on WMCA's Arm's Length Companies (Helen Edwards)		
Items for future meetings		• Annual Report on Equalities (Linda Horne)		

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

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