

# Public Document Pack



**West Midlands**  
Combined Authority

## Audit, Risk & Assurance Committee

**Date:** Tuesday 30 January 2024

**Time:** 10.30 am **Public meeting** Yes

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

### Membership

Mark Smith (Chair)

Councillor Karen Ashley

Councillor Nick Bardsley

Councillor Richard Baxter-Payne

Councillor Dave Borley

Councillor Jaspreet Jaspal

Councillor Brigid Jones

Councillor Leslie Kaye

Councillor Ram Lakha OBE (Vice-Chair)

Councillor Rose Martin

Councillor Liam Preece

Lisa Ritchie

Worcestershire Non-Constituent Authorities

Shropshire Council Non- Constituent Authorities

Warwickshire Non-Constituent Authorities

Dudley Metropolitan Council

City of Wolverhampton Council

Birmingham City Council

Solihull Metropolitan Borough Council

Coventry City Council

Walsall Metropolitan Borough Council

Sandwell Metropolitan Borough Council

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](mailto:wendy.slater@wmca.org.uk)

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# AGENDA

No.	Item	Presenting	Pages	Time
<b>Meeting Business Items</b>				
1.	Apologies for Absence (if any)	Chair	None	10:30
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	10:32
3.	Chair's Remarks (if any)	Chair	None	10:33
4.	Minutes - 4 December 2023	Chair	1 - 6	10:35
5.	Action List	Chair	7 - 8	10:40
6.	Summary of WMCA's Budget 2024/25	Linda Horne	9 - 24	10:45
7.	Update on Statutory Accounts	Louise Cowen	Verbal Report	10:55
8.	Strategic Risk Register Update	Linda Horne/Peter Astrella	25 - 54	11:05
9.	2024/25 Treasury Management Policy, Strategy and Practices	Linda Horne/ Mark Finnegan	55 - 82	11:20
10.	Information Governance Annual Report	Gurmit Sangha	83 - 90	11:35
11.	Internal Audit Update	Lorraine Quibell	91 - 132	11:45
12.	Forward Plan	Chair	133 - 134	11:55
<b>Date of Next Meeting -11 March 2023</b>				



West Midlands  
Combined Authority

## Audit, Risk & Assurance Committee

Monday 4 December 2023 at 10.00am

### Minutes

#### Present

Mark Smith (Chair)  
Councillor Dave Borley  
Councillor Brigid Jones  
Councillor Ram Lakha  
Councillor Rose Martin  
Councillor Liam Preece  
Lisa Ritchie

Independent Member  
Dudley Metropolitan Borough Council  
Birmingham City Council  
Coventry City Council  
Walsall Metropolitan Borough Council  
Sandwell Metropolitan Borough Council  
Business Representative

#### In Attendance

Julia Cleary  
Louise Cowen  
Dan Essex  
Mark Finnegan  
Linda Horne  
Helen Lillington  
Grant Patterson  
Lorraine Quibell  
Joti Sharma  
Kieran Stockley

Head of Corporate Support & Governance  
Head of Financial Management  
Governance & Scrutiny Manager  
Lead Treasury Accountant  
Executive Director of Finance & Business Hub  
Grant Thornton  
Grant Thornton  
Internal Audit Liaison Officer  
Head of Programme Assurance & Appraisal  
Head of Legal Services

#### 35. Inquorate Meeting

The Governance & Scrutiny Manager indicated that the meeting was inquorate, and therefore any decisions made at the meeting would need to be ratified at the next meeting of the committee on 30 January 2024.

#### 36. Chair's Remarks

The Chair reported that he had recently attended a meeting of the West Midlands Audit Committee Chairs forum, where there had been a good discussion on the role of the independent member. He had also continued to have good engagement with the chairs of the WMCA's two overview & scrutiny committees, particularly in respect of the recently published Scrutiny Protocol.

#### 37. Minutes - 4 October 2023

The minutes of the meeting held on 4 October 2023 were agreed as a correct record.

**38. Annual Accounts 2022/23 for West Midlands Combined Authority**

The committee considered a report of the Executive Director for Finance & Business Hub to approve the annual accounts for the WMCA for the financial year ended 31 March 2023. The Interim Audit Findings for the WMCA report was also presented, along with the Auditor's Draft Annual Report on the WMCA for the year ended 31 March 2023, which summarised the key findings arising from the work carried out by the external audit team at Grant Thornton. The Auditor's Draft Annual Report provided a commentary on the results of Grant Thornton's work to the WMCA and to external stakeholders.

The Head of Financial Management explained that there were two minor outstanding issues to resolve, but it was expected that these would be completed by the end of the month. In respect of the WMCA's levels of financial reserves, the Executive Director of Finance & Business Hub explained that the lower levels of reserves were due to the fact that 93% of the WMCA's expenditure comprised grant funding, which either needed to be spent or handed back. Reserves could only therefore be accrued from either fees or the transport levy, and discussions with constituent authorities had indicated that these should be kept lower due to the impact of councils' budgets. However, the WMCA did hold appropriate levels of reserves in respect of its transport functions (eg. concessionary travel payments).

The Chair noted instances where a small number of duplicate payments had been made. The Executive Director of Finance & Business Hub suggested that this had been a result of the increased complexity of WMCA activity, which often involved multiple funding sources. She had asked the Head of Financial Management to undertake a review of how the WMCA's financial services were delivered to ensure these issues were addressed, including the need to bring in additional accounting resources.

In respect of the Auditor's Draft Annual Report on the WMCA, Grant Patterson noted that this was a period of significant development for the WMCA. In respect of procurement arrangements, the Executive Director of Finance & Business Planning confirmed that the recently appointed Head of Procurement was to develop an overarching procurement strategy to complement the WMCA's existing procurement regulations. The Chair thanked Grant Patterson and his staff for his useful report and findings.

Recommended:

- (1) The annual accounts for 2022/23 be approved.
- (2) The Interim Audit Findings for the WMCA report for 2022/23, presented by Grant Thornton, be noted.
- (3) It be noted that Grant Thornton proposed to issue an unqualified audit opinion for the accounts.
- (4) The signing of the letter of representation by the Executive Director of Finance & Business Hub be approved.

- (5) The Chair of Audit, Risk & 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, the Mayor and the Executive Director of Finance & Business Hub be authorised to sign the accounts on behalf of WMCA.
- (7) The Auditor's Annual Report on the WMCA for the year ended 31 March 2023 be noted.
- (8) The publication of the Auditor's Draft Annual Report on the WMCA on the WMCA's website be approved.

[NB. Councillor Brigid Jones declared a personal interest in this item in respect of any future decision to excluded former members of the WMCA Board from becoming a member of this committee.]

#### **39. Treasury Management Mid-Year Report 2023/24**

The committee considered a report of the Executive Director for Finance & Business Hub providing a mid-year review of the WMCA's investment portfolio, borrowing strategy, debt rescheduling undertaken, and compliance with Treasury and Prudential Limits for 2023/24.

Following a review of compliance limits in September 2023, a control failure within the treasury management software had been discovered which impacted on the operating parameters for loan limits with counterparties. A software update had now taken place to ensure systems were operating as intended, with additional measures incorporated to strengthen reporting, the segregation of duties, and protocols/procedures for system changes and updates in future. The Executive Director of Finance & Business Hub confirmed that a further report on this matter would be submitted to the next meeting of the committee.

In respect of the list of investments made by the WMCA, the Chair noted that it only went up to the end of the current financial year, and requested that a full list be submitted to future meetings.

Recommended:

The report be noted.

#### **40. Internal Audit Update**

The committee considered a report of the Director of Law & Governance providing an update on the work completed by internal audit so far this financial year.

The Internal Auditor Liaison Officer reported that delivery of the internal audit plan continued to be monitored and current indications were showing that full delivery was unlikely to be achieved within year. This was due to the availability of temporary resources whilst the WMCA recruited and developed an in-house Internal Audit team, and the requirement to redirect resources to the review of the Transport for West Midlands capital programme and other unexpected matters being brought to Internal Audit's attention. The Head of Corporate Support & Governance reported that an appointment to the Head of Audit & Information Governance was being finalised, and she hoped that the successful candidate would be able to be introduced to the committee at its next meeting.

Recommended:

The report be noted.

**41. Financial Due Diligence Checks on Suppliers in Response to Rail Package 1**

The committee considered a report of the Executive Director of Finance & Business Hub on the financial due diligence procedures that were carried out at contract award for Buckingham Group Contracting Ltd in June 2021 and to provide update on what procedures were in place to manage risk and keep an update on suppliers post contract award.

Following a compliant tendering process, the construction contract for Rail Package 1 was awarded to Buckingham Group Contracting in June 2021. However, they submitted a notice to appoint an administrator in August 2023, and formal appointment was made on 4 September 2023. On the same day, Kier Group announced that it had agreed to acquire substantially all the rail assets from Buckingham Group Contracting and their HS2 contract supplying Kier Group's HS2 joint venture, EKFB, for a total consideration of £9.6m.

The Chair sought assurances that the due diligence undertaken by the WMCA was sufficiently up to date. The Executive Director of Finance & Business Hub explained that due diligence was undertaken on company accounts, which by their nature were retrospective. The construction sector was also traditionally a difficult sector to predict. However, the WMCA only paid work actually undertaken and this provided some assurance in respect of companies going into liquidation.

Recommended:

- (1) The financial due diligence process carried out when awarding contracts be noted.
- (2) The ongoing financial checks and mitigations in place for future contract awards be noted.

**42. Single Assurance Framework Performance Report - July to September 2023**

The committee considered a report of the Executive Director of Finance & Business Hub on the Programme Assurance & Appraisal Team's activity from July to September 2023.

The Single Assurance Framework had been implemented across all WMCA directorates and the SAF Framework document had been updated to reflect national guidance and approved by the WMCA Board. 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 its reputation with Government and to secure future additional money to deliver major projects. The SAF was a risk mitigation tool designed to protect public funding and increase confidence that project outcomes could be achieved through approving use of investment grant funding. The report summarised Programme Assurance & Appraisal Team activity between October 2022 and September 2023 and demonstrated engagement across all directorates and an overall increase in activity over time.

Resolved:

The report be noted.

**43. Forward Plan**

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

Recommended:

The report be noted.

**44. Exclusion of Public**

Resolved:

In accordance with s100(A) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business as it was likely to involve the disclosure of exempt information as specified in paragraph 1 of the Act.

**45. Update on Whistleblowing Claims**

The committee considered a report of the Director of Law & Governance providing an update on whistleblowing claims received to date and the actions having been taken in response to them.

The WMCA had a whistleblowing policy in place to meet its obligations of the Public Interest Disclosure Act 1998. It enabled individuals to raise a concern that they considered to be in the public interest. Any claims received were managed by Internal Audit to ensure independence from any operational area. Four claims had been received to date in 2023/24, with all being treated as a priority to limit further impact of any claims found to be proven upon investigation. The Internal Audit Liaison Officer confirmed that all four claims this year had now been investigated and none of them were found to require any further action on behalf of the WMCA.

Recommended:

The actions taken by Internal Audit team in response to whistleblowing claims received from individuals this financial year be noted.

46. **Date of Next Meeting**  
Tuesday 30 January 2024 at 10.00am.

The meeting ended at 12.00pm.

Draft



**Audit, Risk and Assurance Committee Action List 2023-24**

<b>Date of meeting</b>	<b>Minute No./ Item</b>	<b>Action</b>	<b>Owner</b>	<b>Scheduled Completion Date</b>
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	32. Summary of WMCA Arm's Length Companies	Regular update report to be submitted (quarterly or half yearly suggested)	Helen Edwards	11.03.24
04.12.23	39. Treasury Management Mid-Year Report 2023/24	A full list of investments to provided.	Mark Finnegan	30.01.24 (to be included in report)
04.12.23	Annual Accounts 2022/23 for WMCA	Head of Financial Management to report on the review to address the issues raised such as duplicate payments and the need for additional resources.	Louise Cowen	30.01.24 (verbal report to be provided)

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# Draft Budget 2024/25

Audit, Risk and Assurance Committee  
January 2024

## Purpose

To provide an overview of the draft 2024/25 budget, considered by the WMCA Board on 12 January 2024, and due to be presented for approval on 9 February 2024.

# Budget in Summary

- WMCA is legally obliged to set a balanced, sustainable and robust budget for 2024/25, and has put forward a proposal for such, to be taken to the WMCA Board in February 2024.
- Like other public sector bodies, the WMCA has faced challenging economic circumstances in setting its 2024/25 budget, including cost of living pressures, impact of relatively high interest rates, supply chain issues and impact of conflicts worldwide.
- Building on success of last year, the budget was developed using a bottom-up approach, following series of engagement and consultation with the Mayor and Met Leaders and review by the Overview & Scrutiny Committee.
- All Directorates/Portfolios have focused on mitigating pressures where possible and ensuring that they can continue delivering across the breadth of the WMCA's commitments and ambitions.
- The budget is reflective of the financial resources required to deliver the overarching business plan for the organisation to meet the priorities of the 6 Aims and Objectives of the WMCA as outlined on Slide 4.
- The bottom-up draft budgets have been robustly examined as part of sessions with the S151 officer to provide some assurance that budgetary provision is adequate for planned activities in 2024/25
- Total budget due to be taken for approval for 2024/25= **£1.2bn**, consisting of £506.9m for revenue and indicative capital of **£719.8m**. The final 2024/25 Capital Budget will be presented for approval to WMCA Board in June 2024 following confirmation of the 2023/24 outturn position.

# Strategic context for Budget Setting

The Strategic context for WMCA was confirmed by WMCA Board, which agreed our Aims and Objectives at November 2021 Board meeting

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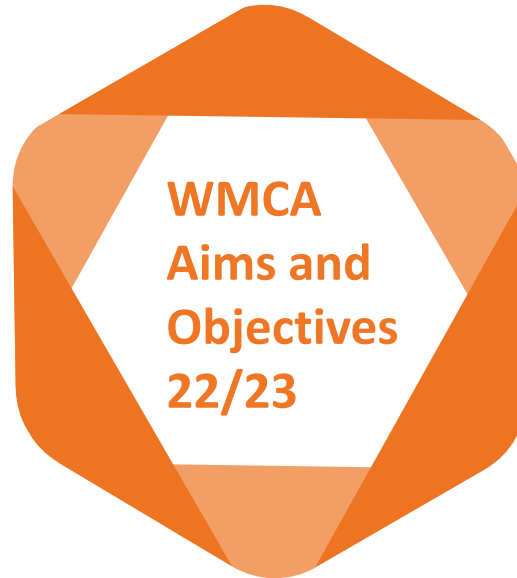
**1** Promote inclusive **economic growth** in every corner of the region



**6** Develop our **organisation** and our role as a good regional partner



**2** Ensure **everyone** has the opportunity to benefit



**3** **Connect our communities** by delivering transport and unlocking housing and regeneration schemes

**4** **Reduce carbon emissions** net zero and enhance the **environment**



**5** Secure **new powers and resources** from central government

# Revenue Budget

2024/25

# Key underlying budget assumptions 2024/25

Transport Levy increase by 3% which generates an additional £3.6m to apply to the transport gap

Use of £24.9m of the Network Stabilisation Grant to balance the 2024/25 position. Network Stabilisation Grant provided to WM region following HS2 northern leg cancellation - £250m across 5 years.

Member and Non-Member contributions to remain at 2023/24 levels

Inflationary uplifts applied to the following areas:

- Pay – 3% uplift
- Non- pay – 3% uplift
- Energy costs – 15% uplift
- Contracts- as specified for contracts

ENCTS budget assumes similar levels of patronage as in 2023/24. Risk of increase in funding for providers from a revised funding calculator has been proposed by Government.

Funding for Energy Capital to continue activity with £0.4m required, as well as £0.7m for the West Midlands Growth Company and £0.4m for WM5G.

Continued subsidy of Midlands Metro operation and the Cycle Hire scheme

Capital Financing and Investment Income based on latest expert advice, including £6.1m MRP charge for 2024/25. MRP charges represent pressure on the Transport budgets following the end of the MRP holiday.

Provision made for election costs estimated at £6.1m for the May 2024 election. Funding from earmarked reserves.

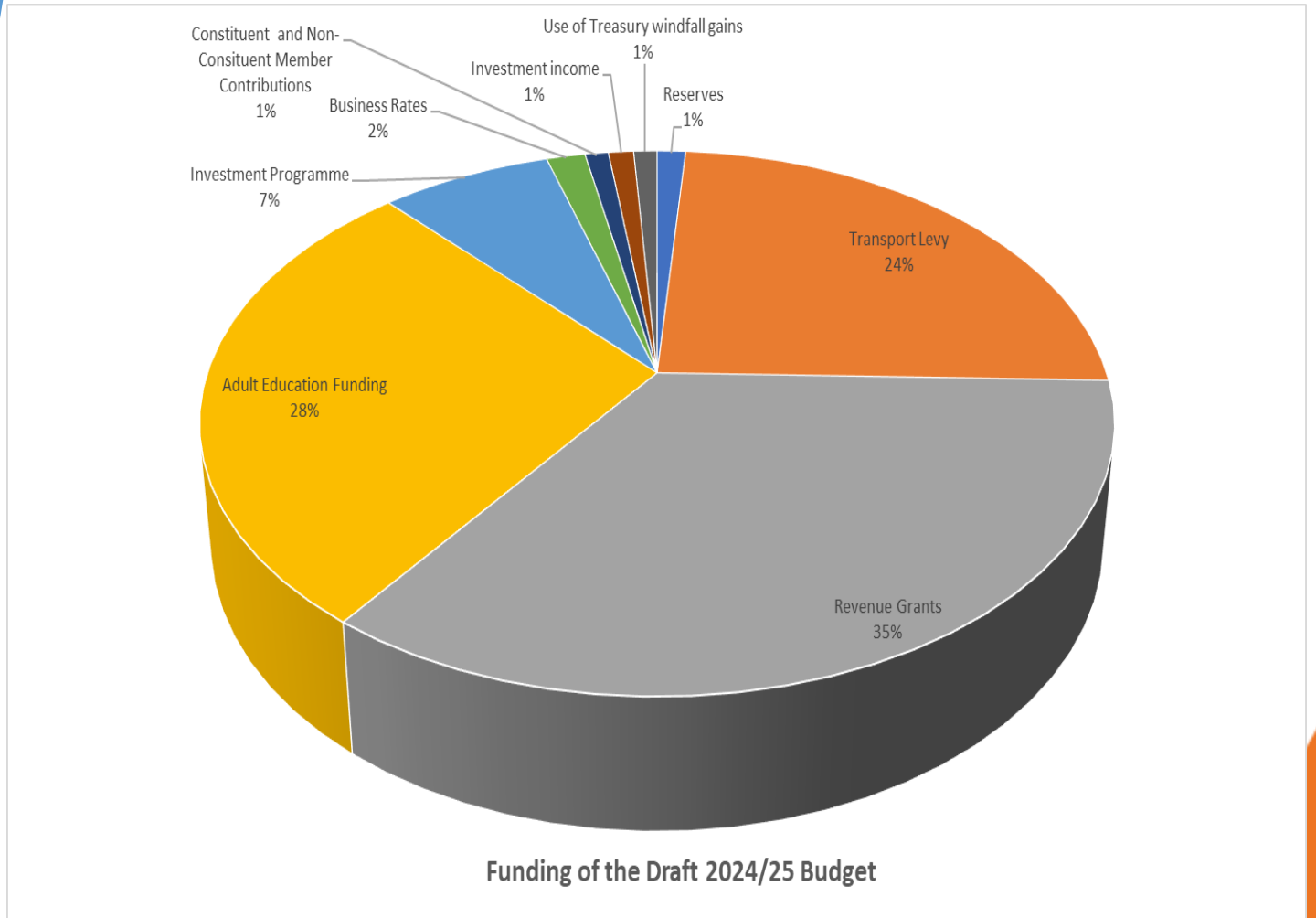
Business rates growth income of £13.5m has been assumed, the majority of which has been mainly applied to Portfolios to support their budgets.

For prudence, no assumptions have been made around the outcome of Deeper Devolution Deal until some further details are known around quantum.



# Where Does Our Income Come From?

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# Constituent Member Contributions

- The budget proposes a 3% increase in Transport Levy, which will generate an additional £3.6m of income to fund Transport pressures in 2024/25. This is allocated to Constituent Members based on statutory populations (mid- year population estimates June 2022, updated November 2023).
- Constituent Member contributions are proposed to be held at £4.6m.
- Total contributions are therefore £127.6m

Allocations	2023/24 £m	2024/25 £m	Net Change
Birmingham	47.89	49.26	(1.37)
Coventry	14.76	15.44	(0.68)
Dudley	13.83	14.13	(0.30)
Sandwell	14.59	14.94	(0.35)
Solihull	9.38	9.61	(0.22)
Walsall	12.20	12.49	(0.29)
Wolverhampton	11.35	11.71	(0.36)
<b>Total</b>	<b>124.00</b>	<b>127.58</b>	<b>(3.58)</b>

The contributions above equate to a gross levy of **£43.19** per West Midlands resident. The Constituent fees will be accommodated within individual Authorities budgets.

# Budget Summary

- The revenue budget is split across 4 main areas:
  - Transport
  - Delivery Portfolios
  - Mayor's Office
  - Investment Programme - remains unchanged compared to 2023/24. Proposed budget of £39.6m funded from the £36.5m annual devolution grant from Government plus £3.1m of investment income.
- Further details on each can be found in Slides 10 – 12.

# Transport budget breakdown

TfWM Budget Spending	2024/25 £m	Statutory £m	Local Policy £m	Network Operation £m	Planning for the Future £m	Business Support Costs £m	Funding £m
Concessions for the elderly and disabled	47.7	47.7					
Financing costs	11.3	11.3					
Child Concessions	6.8		6.8				
Rail and Metro Concessions	4.6		4.6				
Accessible Transport	6.7		6.7				
Subsidised Bus Services	24.4		24.4				
Bus Services and Infrastructure	7.1			7.1			
Integration (inc Safety & Security and Passenger Information)	12.2			12.2			
Rail & Metro Services	21.1			21.1			
Network Resilience	3.4			3.4			
Strategic Development & Transport Democratic Services	5.0				5.0		
Business Support costs	4.9					4.9	
Efficiency Target	(2.4)						(2.4)
<b>Total Expenditure</b>	<b>152.8</b>	<b>59.0</b>	<b>42.5</b>	<b>43.8</b>	<b>5.0</b>	<b>4.9</b>	<b>(2.4)</b>
		38.61%	27.82%	28.66%	3.25%	3.24%	-1.57%
Use of Treasury Windfall Income	5.0						5.0
Network Stability Grant	24.9						24.9
Transport Levy	122.9						122.9
<b>Total Income</b>	<b>152.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>152.8</b>

Note that specific revenue grants of £45.5m are netted against expenditure lines in the table above.

Statutory expenditure relating to concessions for the elderly and disabled and capital financing costs make up **39%** of the Transport budget. Local Policies related to Child, Rail and Metro concessions, Accessible Transport and Subsidised Bus services make up a further **28%** of expenditure.

Bus, Rail and Metro Services and Infrastructure and Integration, including the provision of Passenger information and safety and security are included within Network Operation which makes up a further **29%** of the budget.

Business support accounts for only 3% of the Transport budget.

The Transport function has committed to delivering £2.4m of efficiency savings, which represents around 5.6% of the controllable budget. This is on top of the £3m delivered in 2023/24.

# Delivery Portfolio Budgets

Category	Health & Communities	Inclusive Communities	Housing & Regeneration	Employment & Skills	Economy & Innovation	Environment, Energy & HS2	Levelling Up	Culture & Digital	Funding for Growth	Energy Capital	Central Funding & Recharges	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Grants	4.4	0.4	-	192.0	4.4	1.7	42.6	0.5	-	0.4	0.1	246.5
Investment Income	-	-	-	-	-	-	-	-	-	-	2.3	2.3
Business Rates Growth Income	-	-	-	-	-	-	-	-	-	-	8.3	8.3
Consituent & No-Consituent Member Fees	-	-	-	-	-	-	-	-	-	-	5.0	5.0
Use of Reserves	-	0.0	-	-	-	-	0.1	-	0.7	-	-	0.8
Investment Programme Funding	-	-	-	-	-	0.0	-	-	-	0.1	-	0.1
Other Income	-	-	-	-	-	0.0	-	-	-	-	-	0.0
<b>Total Income</b>	<b>4.4</b>	<b>0.4</b>	<b>0.0</b>	<b>192.0</b>	<b>4.4</b>	<b>1.7</b>	<b>42.7</b>	<b>0.5</b>	<b>0.7</b>	<b>0.5</b>	<b>15.7</b>	<b>263.0</b>
Employees	0.8	0.8	1.0	5.3	1.3	0.7	1.9	0.3	-	0.8	0.2	13.1
Premises Costs	-	-	0.2	-	-	-	-	-	-	-	-	0.2
Supplies & Services	4.2	0.6	0.7	45.0	4.1	2.1	42.0	0.7	1.4	0.2	0.1	101.1
Third Party Payments	-	-	-	143.6	-	-	-	-	-	-	-	143.6
Support Services	0.1	0.0	-	0.6	0.1	0.0	0.7	0.0	-	-	3.5	5.0
<b>Total Expenditure</b>	<b>5.1</b>	<b>1.4</b>	<b>1.9</b>	<b>194.5</b>	<b>5.6</b>	<b>2.9</b>	<b>44.6</b>	<b>1.0</b>	<b>1.4</b>	<b>1.0</b>	<b>3.7</b>	<b>263.0</b>
<b>Net Expenditure</b>	<b>0.7</b>	<b>1.0</b>	<b>1.9</b>	<b>2.6</b>	<b>1.1</b>	<b>1.1</b>	<b>1.9</b>	<b>0.5</b>	<b>0.7</b>	<b>0.5</b>	<b>-12.0</b>	<b>0.0</b>

Note: Third Party Payments includes £142m to be spent on Adult Education

# Mayoral Expenditure

Mayoral Office	2023/24 Budget £	2024/25 Budget £	Movement £
Grant Income	945,271	916,458	(28,812)
Other Income	-	75,000	75,000
<b>Total Income</b>	<b>945,271</b>	<b>991,458</b>	<b>46,188</b>
Employees	838,368	859,873	(21,504)
Supplies & Services	97,170	121,854	(24,683)
Support Services	9,732	9,732	0
<b>Total Expenditure</b>	<b>945,271</b>	<b>991,458</b>	<b>(46,187)</b>
<b>Net Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>

Mayoral Election	2023/24 Budget £	2024/25 Budget £	Movement £
Use of reserves	-	6,100,000	6,100,000
<b>Total Income</b>	<b>-</b>	<b>6,100,000</b>	<b>6,100,000</b>
Local Authority Mayoral Election Costs	-	6,100,000	(6,100,000)
<b>Total Expenditure</b>	<b>-</b>	<b>6,100,000</b>	<b>(6,100,000)</b>
<b>Net Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>

The main funding for the Mayor's Office is the Mayoral Capacity Fund . The majority of the budget (87%) is spent on staffing. Additionally, £6.1m provided for election costs to be funded from reserves.

# Capital Budgets

2024/25

# WMCA Indicative Capital Programme

WMCA CAPITAL PROGRAMME (£M)		2023 / 2024	2024 / 2025	2025 / 2026	2026 / 2027	2027 / 2028	TOTAL
Expenditure	TRANSPORT	296.1	357.2	170.8	101.7	0.4	926.2
	HOUSING AND REGENERATION	35.8	94.8	72.1	18.1	18.2	239.1
	STRATEGY, INNOVATION AND NET ZERO	6.8	13.8	0.1	-	-	20.7
	<b>TOTAL WMCA DELIVERED SCHEMES</b>	<b>338.7</b>	<b>465.9</b>	<b>243.0</b>	<b>119.8</b>	<b>18.6</b>	<b>1,185.9</b>
	TRANSPORT (EXTERNAL)	94.9	237.5	314.0	282.2	75.9	1,004.4
	ESC (EXTERNAL)	12.4	16.4	-	-	-	28.8
	<b>TOTAL EXTERNAL SCHEMES</b>	<b>107.2</b>	<b>253.9</b>	<b>314.0</b>	<b>282.2</b>	<b>75.9</b>	<b>1,033.2</b>
<b>TOTAL CAPITAL PROGRAMME EXPENDITURE</b>		<b>445.9</b>	<b>719.8</b>	<b>557.0</b>	<b>402.0</b>	<b>94.4</b>	<b>2,219.1</b>
Funding	INVESTMENT PROGRAMME DEBT	177.0	132.9	31.1	21.1	12.9	375.0
	FAREBOX DEBT	7.0	90.9	9.1	24.1	0.4	131.4
	UK SHARED PROSPERITY FUND	7.9	13.3	-	-	-	21.2
	CRSTS	119.4	259.0	320.0	209.7	2.5	910.5
	TCF	24.1	5.6	-	-	-	29.7
	OTHER DFT GRANTS	62.4	74.5	25.5	-	-	162.4
	OTHER CENTRAL GOVT GRANTS	16.0	114.5	73.3	18.1	18.2	240.2
	THIRD PARTY CONTRIBUTIONS	2.1	0.1	-	-	-	2.2
	LOCAL FUNDING	28.6	9.2	8.5	6.2	-	52.6
	UNFUNDED	0.5	12.1	86.3	122.8	60.5	282.2
	OTHER	0.9	7.7	3.2	-	-	11.8
<b>TOTAL CAPITAL PROGRAMME FUNDING</b>		<b>445.9</b>	<b>719.8</b>	<b>557.0</b>	<b>402.0</b>	<b>94.4</b>	<b>2,219.1</b>

- The latest view of the WMCA Capital Programme is presented above, based on the 2023/24 Quarter 2 forecasts.
- 50% of planned capital investment in 2024/25 consists of expenditure directly incurred by Transport for West Midlands in pursuance of the Investment Programme, CRSTS and Transforming Cities Programme
- Another 33% of the planned programme is for delivery of transport projects/programmes with work undertaken by local authorities.
- 13% will be spent in delivering the Housing and Regeneration objectives using funds secured by WMCA from Central Government
- Around 65% of the capital programme for 2024/25 is grant funded. Approximately 36% of the Combined Authority's total planned capital investment in 2024/25 consists of delivering the City Region Sustainable Transport Settlement.
- The final 2024/25 Capital Budget will not be confirmed until June 2024, following confirmation of the 2023/24 outturn. Therefore, the figures above are indicative only.



# Beyond 2024/25

# Medium Term Financial Position

- Whilst the budget is balanced for 2024/25, the latest forecast is for financial pressure in the medium term, ranging from **£66.7m** in 2025/26 to **£96.5m** by 2027/28. The gap is solely on the Transport function.
- One of the most significant financial pressures is the continued risk associated with the bus network.
- Additionally, there are pressures arising from the re-introduction of statutory MRP charges after 7 year 'holiday', including MRP charges for Metro programmes currently facing funding deficits. These historic financing decisions were taken by the Passenger Transport Authority, the predecessor to the Combined Authority.

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Government has allocated £250m of revenue funding over a 5 -year period to support network stability, some of which (£24.9m) has been deployed in 2024/25 to fund existing pressures on the transport network. The figures do not make any assumptions around the use of the remaining balance of £225.1m of this grant.

- Ongoing dialogue is required with Mayor and Met Leaders around the medium term financial position, and WMCA is committed to doing this throughout 2024. A sustainable plan for transport is being developed which will balances policy ambitions with forecast level of resources. Work on the future bus delivery options, due to be taken to Board in Summer 2024, will be instrumental in this regard.
- There is a precept income opportunity for the next Mayoral term.
- Ongoing discussions with Government around the Deeper Devolution Deal and Single Settlement may offer some opportunities from 2025/26 onwards, but as details of this are currently being still being negotiated over the early part of 2024 no assumptions have been made around this in the figures shown above.
- West Midlands Combined Authority will continue to lobby government, alongside other Mayoral Combined Authorities, for sustainable funding for Mayoral Combined Authorities.

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Transport Levy	122.936	122.9	122.9	122.9	122.9
Revenue Grants & Other Income (Transport)	70.4	6.5	6.0	6.0	6.0
Revenue Grants & Other Income (Portfolios)	105.4	1.6	1.4	1.4	1.4
Adult Education Funding	142.0	141.4	141.4	141.4	141.4
Share of Business Rates	8.3	14.5	15.3	15.9	16.7
Constituent Membership	4.644	4.6	4.6	4.6	4.6
Non Constituent Members	0.390	0.4	0.4	0.4	0.4
Investment Programme	36.5	36.5	36.5	36.5	36.5
Investment Income	5.4	5.9	5.9	5.9	5.9
Use of Treasury Windfall Income	5.0	0.0	0.0	0.0	0.0
Use of Reserves	6.1	0.0	0.0	0.0	0.0
<b>Total Funding</b>	<b>506.9</b>	<b>334.3</b>	<b>334.4</b>	<b>335.0</b>	<b>335.8</b>
Transport for West Midlands	198.3	196.1	215.2	219.9	225.4
Strategy, Economy and Net Zero	50.6	6.5	6.7	6.9	7.1
Economic Delivery, Skills and Communities	205.9	149.5	149.6	149.9	150.3
Housing and Regeneration	1.9	1.4	1.4	1.4	1.4
Corporate Support Recharges to Portfolios	3.7	4.9	5.3	5.3	5.5
Investment Programme	39.6	41.6	41.6	41.6	41.6
Mayoral Office	0.9	0.0	0.0	0.0	0.0
Mayoral Election	6.1	1.0	1.0	1.0	1.0
<b>Total Expenditure</b>	<b>506.9</b>	<b>401.0</b>	<b>420.8</b>	<b>426.1</b>	<b>432.3</b>
<b>Net Expenditure</b>	<b>0.0</b>	<b>-66.7</b>	<b>-86.3</b>	<b>-91.1</b>	<b>-96.5</b>

*Note: 1) Table above assumes that the proposed 3% increase in the Transport Levy will be approved by Board in February 2024.*

*2) No further assumptions have been made around deployment of the Network Stabilisation grant beyond 2024/25. These will be factored into the next MTFP update.*



## Audit, Risk & Assurance Committee

<b>Date</b>	30 January 2024
<b>Report title</b>	WMCA Strategic Risk Update
<b>Accountable Chief Executive</b>	Laura Shoaf, Chief Executive
<b>Accountable Employee</b>	Linda Horne, Executive Director of Finance and Business Hub
<b>Report has been considered by</b>	

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

**Audit, Risk & Assurance Committee is recommended to:**

- a. Note the key messages in the Strategic Risk Update
- b. Consider and note revisions, or planned revisions, to the Strategic Risk Register.

**1. Purpose**

- 1.1. Taken together, the Strategic Risk Update at appendix 1, the Strategic Risk Register (SRR) at appendix 2, and the Issues Log at appendix 3, provide the ARAC with visibility of the strategic risks currently faced by the WMCA and support its function in monitoring the operation of risk management at the WMCA.

**2. Background**

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

## 2.2 Risks

The latest review has seen a reduction in the assessment of two risks, and an increase in two others. This has resulted in there now being 11 strategic risks rated High, four of which have the highest residual rating:

- *Failure to deliver the opportunities and benefits of the Investment Programme*
- *Inflation & global supply chain pressures*
- *TfWM Programme Cost Management*
- *Local authority partners in financial difficulties or entering Section 114*

The seven other risks rated at High / Red are:

- *Information and IT Systems Assurance & Security*
- *Financial resilience of WMCA to absorb fiscal shocks*
- *Regional Stakeholder & Political Relations*
- *Capacity and capability*
- *Post pandemic sustainability of public transport network*
- *Commerciality*
- *Cost of Living Crisis.*

Details of these changes can be found in *Appendix 1 – Strategic Risk Update*.

## 3. Financial Implications

N/A

## 4. Legal Implications

N/A

## 5. Equalities Implications

N/A

## 6. Inclusive Growth Implications

N/A

## 7. Geographical Area of Report's Implications

N/A

## 8. Other Implications

N/A

## 9. Schedule of Background Papers

Appendix 1 Strategic Risk Update

Appendix 2 WMCA Strategic Risk Register

Appendix 3 WMCA Issues Log



West Midlands  
Combined Authority

# ARAC Strategic Risk Update January 2024

Peter Astrella – Risk Manager  
Finance & Business Hub

# WMCA Strategic Risk Update Contents

<u>Slide</u>	<u>Title</u>
3	Risk Scores and Owners
4	Heat Map
5	12 Month Trend
6	Key Messages for ARAC – Issues
7	Key Messages for ARAC – Risks Increasing
8	Key Messages for ARAC – Risk Reducing
9	Key Messages for ARAC – High Risks

# WMCA Strategic Risks – Scores and Owners

There are now 11 strategic risks rated High / Red, four of which have the highest residual rating:

Risk ID	Risk Title	Risk Owner 1	Dec-23
SRR-R001	Failure to deliver the opportunities and benefits of the Investment Programme	Exec Dir Finance Business Hub	25
SRR-R024	Inflation & global supply chain pressures	SLT	25
SRR-R030	TfWM Programme Cost Management	Exec Dir TfWM	25
SRR-R033	Local authority partners in financial difficulties or entering Section 114	Exec Dir Finance Business Hub	25
SRR-R003	Information and IT Systems Assurance & Security	SLT	20
SRR-R021	Financial resilience of WMCA to absorb fiscal shocks	Exec Dir Finance Business Hub	20
SRR-R005	Capacity and Capability	Head of HR	20
SRR-R004	Regional Stakeholder & Political Relations	Exec Dir Strategy, Economy & Net Zero	16
SRR-R007	Post pandemic sustainability of public transport network	Exec Dir TfWM	15
SRR-R008	Commerciality	Exec Dir Finance Business Hub	15
SRR-R028	Cost of living crisis	Our Staff - Exec Dir Finance Business Hub Citizens - Exec Dir Strategy, Economy & Net Zero	15
SRR-R010	Governance Failures	Head of Governance	12
SRR-R031	Single Settlement - Negotiations	Exec Dir Strategy, Economy & Net Zero	12
SRR-R015	Failure to deliver the collective regional commitment to reducing the carbon budget to net-zero CO2 by 2041	Exec Dir Strategy, Economy & Net Zero	10
SRR-R019	Investment Programme Delivery	Exec Dir Finance Business Hub	10
SRR-R027	Financial Sustainability of the Mayoral-led CA Model	Exec Dir Finance Business Hub	10
SRR-R012	WMCA Resilience	Exec Dir Housing, Property and Regeneration	9
SRR-R018	Health & Safety	Exec Dir TfWM	6
SRR-R006	Maintenance of political support for devolution from HMG to WMCA	Exec Dir Strategy, Economy & Net Zero	4
SRR-R032	TDD Ratification	Exec Dir Strategy, Economy & Net Zero	1

# WMCA Strategic Risk Heat Map

The latest review of strategic risks has seen an increased assessment for two risks, and a reduced assessment of two other risks.

			Current Threats				
Likelihood	5	Very high			SRR-R028 ⇄	SRR-R003 ↑	SRR-R001 ⇄ SRR-R024 ⇄ SRR-R030 ⇄ SRR-R033 ⇄
	4	High				SRR-R004 ⇄	SRR-R005 ↑ SRR-R021 ⇄
	3	Medium			SRR-R012 ⇄	SRR-R010 ⇄ SRR-R031 ↓	SRR-R007 ⇄ SRR-R008 ⇄
	2	Low			SRR-R018 ⇄		SRR-R015 ⇄ SRR-R019 ⇄ SRR-R027 ⇄
	1	Very low	SRR-R032 ↓			SRR-R006 ⇄	
Threat Rating	Score Range	Count	1	2	3	4	5
Limited	1-5	2					
Medium	6-12	7	Minimal	Minor	Significant	Major	Critical
Very High	15-25	11					
Total		20					





# WMCA Strategic Risk 12 Month Trend



# Key Messages for ARAC - Issues

- *Metro 2GT Cracks* – The second phase of repairs is now complete, but there has been a delay in starting the third and final phase of repairs, as a result we will continue to retain and monitor the issue on the issue log.
- *TfWM Technical Breach* – We have reported to ARAC the audit recommendations, which are being implemented, while a further independent audit will be undertaken to confirm implementation of these recommendations.
- *Buckingham Group Contracting Limited has gone into administration* – The contract for Willenhall and Darlaston stations has been novated to Kier Integrated Services Limited ('Kier'). As a result, this issue is closed and will be removed from the issue log.

# Key Messages for ARAC – Risks Increasing

*Information and IT Systems Assurance & Security* – The recent cyber threat activity on transport infrastructure across the UK, has resulted in the likelihood of this risk being increased from 4 to 5. Digital & Data (D&D) have implemented additional mechanisms to further mitigate against this type of incident.

*Capacity & Capability* – the risk has been revised to reflect resource challenges we face in delivering our organisational priorities over the next 12 months, particularly the Single Settlement. The overall risk score has increase to 20 from 16. New control activity is focussed on the need to review capacity requirements ahead of EXB discussion in Jan 2024; this is not just about looking at increasing headcount, but ensuring we have the right people in the right posts.

# Key Messages for ARAC – Risks Reducing

*TDD Ratification* – The TDD has now been ratified by constituent LA members and the related risk has been closed and will be removed from the strategic risk register.

*Single Settlement Negotiations* – The risk has been rewritten to reflect the possible ‘failure to deliver the overall single settlement implementation plan post MoU announcement’, and to recognise concerns around ‘quantum’. Control activity is focussed on the process for developing a comprehensive single settlement plan. Having said this, likelihood has reduced slightly.

# Key Messages for ARAC – High Risks

*Post pandemic sustainability of public transport network and Financial resilience of WMCA to absorb fiscal shocks* – We have had a request approved that allows BSIP funds to be used to provide additional financial capacity to secure the Bus network to December 2024.

In addition, while the Network North announcement has bought some short/medium term funding into the authority for transport pressures, further options for increased funding on a long-term sustainable basis continue to be explored.

*Financial Sustainability of the Mayoral-led CA Model* - WMCA expects to be able to present a balance draft 2024/25 budget to Board in January 2024 utilising mainly short-term funding solutions while a longer-term solution continues to be developed.

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Title	Cause & Effect	Control measures in place	Likelihood	Impact	Score	Further action to mitigate risk
<b>Failure to deliver the opportunities and benefits of the Investment Programme</b>	<p>Two main causes are:</p> <ul style="list-style-type: none"> <li>• Decisions taken about the supplementary or alternative income streams; Business Rates Growth, Business Rates Supplement, and Precept.</li> <li>• Interest rate rises erode the purchasing power of the grants / funding we secure.</li> </ul> <p><b>We</b> will be unable to deliver the opportunities and benefits of the Investment Programme, with all the related impacts on the long-term health of the CA and our ability to deliver for the people and businesses of the West Midlands.</p>	<ul style="list-style-type: none"> <li>• Investment capped within an affordable limit, including a hedge against future interest rate rises.</li> <li>• Met Leaders have consistently stated that IP Projects are of the highest regional priority and that where new funds are provided, they should be first applied to meet the shortfall of funding of IP projects where this is allowed.</li> <li>• Regular review of the forces on the IP model.</li> <li>• Working closely with Government to unlock additional income streams, e.g. Single Settlement, or identify opportunities to fund Investment Programme schemes through other means (i.e. Levelling Up Fund, CRSTS).</li> </ul>	5	5	25	<p>We are actively engaging with Government through our Trailblazer Devolution Deal discussions to look at how we:</p> <p>(1) Unblock Business Rate growth, and</p> <p>(2) Build support to enable a Supplementary Business rate</p> <p>Finally, we may want to explore future (post current Mayoral Term) precept options</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 37</p> <p><b>Information and IT Systems Assurance &amp; Security</b></p>	<ol style="list-style-type: none"> <li>1. Data protection requirements and/or proper protective security of all WMCA assets, information systems, premises and people, are not reasonably and proportionately maintained.</li> <li>2. Security assurance is more limited in areas of the combined authority independent of Digital &amp; Data.</li> <li>3. Organised and Opportunistic Crime.</li> <li>4. Authorised user failures.</li> <li>5. 3rd Party Services failures.</li> </ol> <p><b>Giving</b> specific rise to:</p> <ul style="list-style-type: none"> <li>• Loss of information / access to information by unauthorised persons.</li> <li>• Loss of access to information and information systems.</li> <li>• <b>Unable to use systems or significantly limited ability to process work.</b></li> <li>• WMCA's inability to function effectively.</li> </ul> <p><b>As evidenced by recent (Autumn 23) cyber threat activity on transport infrastructure across the UK</b></p>	<ul style="list-style-type: none"> <li>• Information Assurance (IA) Framework supported by a suite of Protective Security and Data Protection policies.</li> <li>• The IA Framework requires risk owners to consider and manage Data Protection risk at strategic and operational levels.</li> <li>• The CA monitors and adheres to all standards, warnings, advice, guidance and best practice from relevant National Technical Authorities and other external experts.</li> <li>• All staff required to complete Information Security training, including GDPR, with regular staff awareness and monitoring in place.</li> <li>• <b>In response to recent cyber threat activity on the UK transport infrastructure, D&amp;D have implemented additional mechanisms to further mitigate against this type of incident. These mitigations are applied to D&amp;D owned and governed systems.</b></li> </ul>	5	4	20	<ul style="list-style-type: none"> <li>• Deliver the D&amp;D Strategy.</li> <li>• Work with Exec Brd and CMT to maintain organisational buy-in and commitment.</li> <li>• Work with the Finance Team to embed the Strategy's requirements within the Medium-Term Financial Plan (MTFP) process to maintain the necessary financial support.</li> <li>• <b>Technical solutions operating outside of D&amp;D ownership and governance to consider their position, vulnerabilities and resilience.</b></li> </ul>
<b>Regional Stakeholder &amp; Political Relations</b>	<ul style="list-style-type: none"> <li>• Positive stakeholder and political relations <b>and strong CA-LA partnership working</b> are needed <b>across the region</b> to deliver the <b>collective</b> ambitions of the organisation.</li> <li>• Changes in national, regional or local politics have the potential to impact <b>our</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>An opportunity to use the single settlement and West Midlands Futures to develop more cohesive structures and cultures for regional partnership working.</b></li> <li>• <b>In terms of day-to-day mitigations, ongoing close working and regular communication with our constituent and non-constituent members,</b></li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>• New opportunities being identified by Leadership Team to maintain and improve relations.</li> <li>• Induction process for newly elected political members of WMCA in place.</li> <li>• Produce engagement and</li> </ul>

Title	Cause & Effect	Control measures in place	Likelihood	Impact	Score	Further action to mitigate risk
	<p>ability to deliver the funding, powers and priorities of WMCA.</p> <ul style="list-style-type: none"> <li>• Failure to manage these political relations and expectations could result in gaps in delivery, missed opportunities for regional economic development and increased budgetary pressures.</li> <li>• The West Midlands' long-term economic potential would remain untapped and residents' living standards would be lower as a result.</li> </ul>	<p>including via CA-LA officer groups, MPL and WMCA Board.</p>				<p>advocacy programmes across certain themes to ensure that the devolution agenda is maintained, and CA objectives are achieved.</p> <ul style="list-style-type: none"> <li>• A member relations officer is being recruited to help deliver improved engagement with local authorities.</li> </ul>
<p style="text-align: center;">Page 38</p> <p>Capacity and Capability</p>	<ul style="list-style-type: none"> <li>• Single settlement negotiations and implementation will create significant demand on resources, while the single settlement will have significant impact on processes and ways of working post 1 Apr 25.</li> <li>• While at the same time, several other organisational priorities over the next 12 months will require significant input to support delivery, e.g. the OPCC merger, new procurement regs implementation, IZs.</li> <li>• There is the risk that the capacity and skills amongst managers and officers may not be sufficient or fully aligned to the delivery of our objectives and respond to changing priorities, or to meet the continuing focus for delivery of new and challenging initiatives within WMCA. While the management of hybrid workers may be more challenging in some instances and require a different skill set</li> <li>• Increased demands and pressures on staff could impact wellbeing and attendance levels.</li> <li>• Hybrid working has opened opportunities for people that might not have existed before. This is also an opportunity for the CA as we may no longer be tied to recruiting from a relatively small geographical pool.</li> </ul>	<ul style="list-style-type: none"> <li>• Work on People &amp; Culture Strategy has been completed and is now being rolled out through a detailed engagement plan, the implementation of which will enable us to ensure that our Officers and Managers are equipped to deliver what is required to support the aims and objectives of the CA</li> <li>• Response to hybrid working continues to be a success. Workshops have taken place in all Directorates to review the response to Ways of Working, with feedback received and acted upon.</li> <li>• Our shift towards and acceptance of hybrid working has assisted WMCA in the attraction and retention of applicants and employees.</li> <li>• The new fora (Senior Leadership/Leaders &amp; Managers) have jointly agreed a new Leadership Statement - setting out commitment to building leadership capability and development opportunities.</li> <li>• Although we are awaiting the new EDI/Wellbeing Partner to start in post, there are initiatives and support services in place for staff.</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>• Implementation of the People &amp; Culture Strategy.</li> <li>• Work continues in Resourcing on the Employee Value Proposition (EVP) as part of the Recruitment Strategy. Ongoing work takes place on Resourcing pages on the external website, new Psychometric system for applicants has gone live and the "Gauge" reward and benchmarking system is also live.</li> <li>• WMCA EXB are considering several health and wellbeing and development initiatives to introduce to support staff.</li> <li>• Head of HR to support FABH SLT members to review capacity requirements ready for EXB discussion in early Jan 24.</li> </ul>
<p>Maintenance of political support for</p>	<p>Any government elected at the next general election could have a different</p>	<ul style="list-style-type: none"> <li>• Organisational objectives are monitored and managed by Officers, thematic Boards,</li> </ul>	1	4	4	<p>Low perceived residual external risk given current government and</p>



Title	Cause & Effect	Control measures in place	Likelihood	Impact	Score	Further action to mitigate risk
<b>devolution from HMG to WMCA</b>	<p>attitude towards English devolution which could negatively affect WMCA.</p> <p>The case for Mayoral Combined Authorities (MCA) and devolution could be undermined, resulting in:</p> <ul style="list-style-type: none"> <li>• Re-centralisation of MCA functions or new HMG programmes that cut across our delivery plans or undermine our role.</li> <li>• Limit our ability to deliver our devolution deals, causing broad reputational damage and the possibility of detrimental impact to the local economy.</li> <li>• <b>Removal of opportunities to further expand devolution to WMCA, including fiscal devolution.</b></li> </ul>	<p><b>WMCA Board and the Policy and Public Affairs Team.</b></p> <ul style="list-style-type: none"> <li>• Maintain close relationships with central government at both political and civil service levels, <b>including through the development of WMCA lobbying strategies.</b></li> <li>• Make persuasive arguments for funding on all appropriate occasions.</li> <li>• Maintain involvement in regional and national review and planning exercises.</li> </ul>				<p><b>Labour Party</b> positioning on the devolution agenda.</p>
<p style="text-align: center;">Page 39</p> <p><b>Post pandemic sustainability of public transport network</b></p>	<ul style="list-style-type: none"> <li>• The West Midlands operates a deregulated bus service where most services are commercial and operate to make a profit.</li> <li>• <b>The WMCA is responsible for tendering additional subsidised services which cannot be operated commercially.</b></li> <li>• <b>Pre pandemic patronage has not recovered to the same levels which has impacted the viability of services, especially in light of increased costs of service operation and challenges arising from SRR-R024 Inflation &amp; global supply chain pressures</b></li> <li>• Continued uncertainty over longer term government funding beyond March 2025 <b>(latest extension to funding deadline) and local funding sources are in focus.</b></li> </ul> <p><b>Bus –</b> Further reduction in commercial services across the region, <b>resulting</b> in further pressure on TfWM to provide financial support to more tendered services, leading to increased budget pressures for WMCA.</p> <p>The delivery of contracted bus services by the WMCA is determined by Access Standards. The increased cost of delivering services has led to a considerable number of TfWM contracts falling outside of the VFM criteria. The bus driver shortage</p>	<p><b>Bus -</b> TfWM have some influence through partnership and joint working, but do not control the commercial decisions of bus operators.</p> <ul style="list-style-type: none"> <li>• <b>Engagement</b> with Government / DfT has resulted in devolution of some funding to better manage any required network changes.</li> <li>• Reviewing the Bus Delivery Options to create an evidence led approach to assessing the future delivery of bus between the Enhanced Partnership and Bus Franchising for decision by the WMCA in 2024.</li> <li>• Putting performance requirements on bus operators to increase service performance in exchange for funding and to help encourage patronage growth.</li> <li>• Working with industry, Government and partners through the West Midlands Bus Alliance to attract new and additional bus drivers to the industry.</li> <li>• Work with operators to provide customers with improved journey and service availability information.</li> <li>• VFM criteria has been reviewed to allow a greater number of bus contracts to be supported by the subsidised bus budget. Several services will fall out outside the VFM criteria and will be withdrawn.</li> <li>• Government support for the sector has been confirmed to April 2025. In the West Midlands,</li> </ul>	3	5	15	<p><b>Bus -</b></p> <ul style="list-style-type: none"> <li>• <b>Work with Government and WMCA, Leaders and LAs to identify funding options from January 2025 for sustaining and reviewing the existing bus network.</b></li> <li>• Work with operators to identify opportunities to reduce overprovision on corridors, <b>improved information, marketing of existing service, improved performance and passenger growth.</b></li> <li>• <b>Continue trial of alternatives including</b> comingling of passengers / explore options for expanding WM on Demand service to help meet gaps in the fixed route bus network.</li> <li>• <b>Effectively repurpose BSIP funds to sustain the existing network.</b></li> <li>• <b>Promote revised ticketing products which have been massively simplified in July 2023.</b></li> <li>• <b>Maximise outputs from £19m ticketing incentive scheme plans through BSIP.</b></li> <li>• <b>Review options for long term sustainability of the network through other operating models by Summer 2024.</b></li> </ul>

Title	Cause & Effect	Control measures in place	Likelihood	Impact	Score	Further action to mitigate risk
Page 40	<p>means most operators are unable to deliver the timetables they have registered.</p> <p><b>Metro</b> - Difficult for MML to hit operating budgets, which has a knock-on impact on operations and elements of Metro expansion where borrowing against future revenue is involved.</p> <p><b>Rail</b> - Increased pressure to reduce the Rail industry cost base by reducing services, changes to working practices and these could be harmful to the strategic objectives of TfWM &amp; WMCA.</p>	<p>all funding will be routed via TfWM giving us greater control and the ability to focus funding on the needs of the region. Similarly, the Government have changed the guidance on BSIP funding which means it can be used to deliver retention as well as transformation. In all cases the quantum of funding and associated terms and conditions are not yet known.</p> <ul style="list-style-type: none"> <li>• Engaging with Government regarding the proposed recovery partnerships and seeking to influence the level of available funding - Light rail settlement combined with bus settlement, WMCA region allocation to be confirmed in due course.</li> <li>• Early identification of financial risk to inform the budget setting process and identifying options for reducing expenditure - Operational efficiency ongoing, all elements investigated i.e power, staffing.</li> </ul> <p><b>Rail</b> - Work with DfT, Rail industry partners to help inform decisions about future service offering within the West Midlands.</p>				
	<p>Having chosen to use commercial company delivery models in some areas, challenging economic conditions and / or material loss of revenue from investments may result in these commercial models being unable to deliver expected benefits and commercial revenue targets.</p> <p>While the issues associated with Covid 19 have largely passed, a new issue of high inflation and the cost-of-living crisis is likely to have a significant effect on the economy.</p> <p>The Combined Authority may be exposed to greater financial risk, as well as reputational and delivery impacts. Examples being underperformance of the Commercial <b>Investment Fund (debt fund)</b> and a drop in commercial revenue and future Fairbox revenues, which could affect the WBH extension</p>	<p>Formal governance structures in place between WMCA and commercial bodies. CA directors appointed to companies providing regular interface between parties. Compliance of all financial accounting arrangements.</p> <p>Assurance &amp; Governance checklist in place to review and confirm satisfactory arrangements are in place for all 'Arm's Length companies' Companies generally set up on a limited basis and therefore without a legal obligation to input more capital, however a reputational obligation may exist. Sources of capital input are generally sums that would otherwise have been input as grant i.e. they are from income streams to the WMCA that will not require repayment if losses occur.</p> <p>The Investment Director provides a commercial perspective on funding opportunities that are presented to WMCA. Adequate expertise brought into the Finance Team to ensure an appropriate amount of rigor</p>	3	5	15	<p>For new commercial models sensitivity analysis will determine the probability of meeting any borrowing commitments and an appropriate mix of grant and borrowing will be applied having first obtained relevant approvals for any investment.</p> <p>For existing models we will continue to monitor our risk exposure and where recommended and appropriate we will seek to add additional grant money or exit in part or whole subject to our ability to do so.</p>

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		<p>and precision exists within all WMCA commercial financing models, reducing the risk of error.</p> <p>The statutory officers of WMCA are involved in the review of all commercial decisions and contracts/legal agreements to ensure that Covid risks/viability and costs have been assessed and where possible, controlled at the present time.</p>				
<p style="text-align: center;">Page 41</p> <p><b>Governance Failures</b></p>	<p>Failure to adopt and embed adequate formal governance arrangements.</p> <p>As the WMCA is going through a period of growth with absorption of new and emerging priorities there is a risk that existing governance arrangements do not support the delivery of the organisation's objectives. With new devolved budgets, different government departments have specified different assurance requirements which are adding to pressures to develop bespoke governance arrangements. Inadequate governance could result in:</p> <ul style="list-style-type: none"> <li>• Ineffective decision-making arrangements</li> <li>• Unsuccessful delivery of WMCA objectives,</li> <li>• Legal challenge,</li> <li>• Negative Financial impact</li> <li>• WMCA being unable to meet its obligations and future aspirations.</li> <li>• Reputational damage</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive governance arrangements are in place, regularly reviewed and contained in the WMCA constitution, approved by the Board.</li> <li>• The Director of Law &amp; Governance and Monitoring officer is a member of the Strategic Leadership Team and attends all meetings of the WMCA Board, and responsibility for oversight of all assurance activities, including Internal Audit.</li> <li>• Governance activities are managed centrally to ensure robust arrangements are in place and conform to all legal requirements.</li> <li>• Statutory Officers Group meets to moderate and review compliance of governance arrangements.</li> <li>• A WMCA single assurance framework (<b>SAF</b>) is in place. Governance requirements for Adult Education Budget, Housing and 5G have been established to ensure the adoption of streamlined approaches where required.</li> <li>• Ongoing programme of risk based Internal audits undertaken to provide an independent review that governance arrangements and internal policies are adhered to and remain effective.</li> <li>• Corporate Assurance Team and Governance continue to liaise with new functions to establish appropriate assurance and governance arrangements.</li> <li>• A governance review was undertaken and reported in November 2021 and continues to be implemented.</li> <li>• Executive Directors and their respective departments to ensure good governance is</li> </ul>	3	4	12	<p>Ensuring that governance arrangements are appropriate, properly resourced, agreed, understood and embedded across the Organisation to allow the new requirements and responsibilities contained in the DDD to be implemented and embedded successfully, this will include governance and monitoring and evaluation arrangements for the single settlement and the new accountability and scrutiny arrangements detailed in the Deal and the English Devolution Accountability Framework (the Scrutiny Protocol and the scrutiny of the Mayor and portfolio leads by regional MPs).</p>

Title	Cause & Effect	Control measures in place	Likelihood	Impact	Score	Further action to mitigate risk
<p><b>WMCA Resilience</b></p> <p style="text-align: center;">Page 42</p>	<p>Unexpected or irregular events and circumstances affecting WMCA services, buildings and facilities, disrupting operations and activities.</p> <p>WMCA may be unable to respond in an effective and timely manner to events that have the potential to disrupt operations and activities, causing service outages, incl. those relating to the disruption of the transport network.</p>	<p>embedded within their departments and activities</p> <ul style="list-style-type: none"> <li>• Business continuity framework to ensure WMCA can respond to any business disruption.</li> <li>• IA provided 'substantial' rating for corporate business continuity arrangements.</li> <li>• Consistent messaging and comms throughout organisation. Raising awareness and embedding the programme within the business.</li> <li>• Hybrid working arrangements and increased resilience from newer communications methods.</li> <li>• A new 'all staff updates' messaging service has been established in Teams.</li> <li>• An incident management team and out of hours On Call arrangements are in place with alternative workspace locations identified.</li> <li>• Establishment of multi-agency partnerships with monthly progress updates and review of risk exposure e.g. TfWM &amp; Blue Light Services</li> <li>• FM are now working closely with Network Resilience to share best practice on TfWM plans.</li> <li>• All incidents are now reported to CMT as part of the 'organisational health' dashboard and will be shared with Strategic Assets Board.</li> <li>• Major event emergency planning and associated governance structure to review on an ongoing basis.</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>• Refresh of existing Business continuity framework underway to reflect organisational change and growth, assessment of new risks in a hybrid working environment and best practice from CWG arrangements:</li> <li>• A 'task and finish' group has been established, led by the FM team, to review and refresh our business continuity plan.</li> <li>• Digital &amp; Data are working with FM as part of the 'task and finish' group to look at the IT disaster recovery plan.</li> <li>• A new business continuity Teams site is being established with Digital &amp; Data.</li> <li>• Phase 2 of the Business Continuity Strategy is the review and refresh of the 16 Summer Lane emergency plan (over Q3 2023)</li> <li>• Phase 3 of the plan is the development of a wider corporate and organisational resilience plan and overarching strategy (Q4 2023)</li> </ul>
<p><b>Failure to deliver the collective regional commitment to reducing the carbon budget to net-zero CO2 by 2041</b></p>	<p>A variety of challenging and uncertain structural and operational factors, including the pace of transition within key industries and sectors, and the scale of government investment and legislation.</p> <p>WMCA, its members and partners, do not meet the region's carbon budget reduction net-zero CO2 by 2041 aims and attendant interim targets.</p> <p>There are profound implications for the region as part of a headline global risk of severe warming which evidence suggests</p>	<ul style="list-style-type: none"> <li>• A climate change strategy has been developed and priorities identified through a paper presented to the CA Board in June 2020; WM2041: a programme for implementing an environmental recovery. Actions from this paper are being taken forward and the CA Board agreed a Five-Year Plan.</li> <li>• As part of the approval of the Five-Year Plan, budget was provided to create 5 new roles for the Environment Team and five new roles for Energy Capital; significantly</li> </ul>	2	5	10	<ul style="list-style-type: none"> <li>• Implement the first 5-year action plan; there is concern that it is currently only fully resourced for 2-years, and we are now over halfway through.</li> <li>• Successful delivery of our objective will be very challenging without additional resourcing of both the team and the work,</li> <li>• The scale of the renewed commitment of WMCA alongside that of its members and partners requires a step change in our</li> </ul>

Title	Cause & Effect	Control measures in place	Likelihood	Impact	Score	Further action to mitigate risk
	<p>will be hugely significant and costly in both human and economic terms.</p>	<p>enhancing our ability to deliver against the programme's targets.</p> <ul style="list-style-type: none"> <li>The Environment Team are working with other parts of the CA (TfWM, Housing and Land and Productivity and Skills) to ensure that net zero is embedded across the CA's work. TfWM continues work to affect a modal shift to clean and efficient public transport and active travel addresses medium term carbon reduction goals as well as shorter term concerns over clean air and congestion. The new Movement for Growth strategy will have carbon as a key consideration in future transport measures.</li> <li>Supporting progress with sustainability partners in aligning the five-year budget cycles required under the UK Climate Change Act.</li> <li>Annual monitoring of progress by the WMCA Environment Team is in place, as is annual reporting to the Carbon Disclosure Project.</li> </ul>				<p>behaviour, this includes a particular need for focus on climate change across the whole of the CA's portfolio of activity.</p> <ul style="list-style-type: none"> <li>We continue to press the Government for additional funding for the work on energy and environment in connection with any review of public spending.</li> </ul>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 43</p> <p><b>Health &amp; Safety</b></p>	<ul style="list-style-type: none"> <li>Failure of the WMCA to implement and embed suitable and sufficient Health and Safety arrangements across its activities via a defined Safety Management System (SMS) which as a minimum ensures compliance with all relevant legislative requirements.</li> <li>Risk to persons and/or infrastructure, including safe delivery of Metro Operations and Programme Delivery construction activity.</li> <li>Breach of legislative requirements, with potential for enforcement action by regulatory bodies, legal action (both criminal and civil).</li> </ul>	<ul style="list-style-type: none"> <li>SMS certified to ISO 45001 standard with ongoing compliance externally assessed annually.</li> <li>Assessment of internal and external issues relevant to the SMS undertaken to allow the organisation to understand the H&amp;S challenges and risks inherent to its activities, as well as any interested internal and external parties.</li> <li>WMCA H&amp;S Policy signed by Chief Executive containing statement of intent, roles and responsibilities and arrangements for implementation.</li> <li>Comprehensive H&amp;S Legislation Register maintained by H&amp;S Dept.</li> <li>WMCA H&amp;S Strategy 2023-26 and associated Annual Delivery Plan.</li> <li>Strategic and Operational H&amp;S Committees.</li> <li>Audit and Inspections of all operational assets undertaken to ensure H&amp;S compliance.</li> <li>Monthly H&amp;S Report provides regular update of performance and activity, while annual H&amp;S Performance Report summarises principal activities relating to the promotion and</li> </ul>	<p style="text-align: center;">2</p>	<p style="text-align: center;">3</p>	<p style="text-align: center;">6</p>	<ul style="list-style-type: none"> <li>Development of policies, procedures, and guidance to ensure suitable and sufficient H&amp;S implemented for all areas of the WMCA portfolio.</li> <li>Implementation of SMS Compliance Audit Tool to assess the application, understanding and maturity of health and safety policies and procedures within each WMCA directorate.</li> <li>Enhanced Visible Felt Leadership Programme to engage and motivate employees, whilst demonstrating commitment and support to the overall Health and Safety Policy.</li> <li>Development and delivery of H&amp;S culture campaign to increase employee engagement.</li> <li>Continued development of the Health and Safety Training Programme.</li> <li>Immediate engagement with emergency services and/or</li> </ul>

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		<p>management of H&amp;S, and outcomes during the past year.</p> <ul style="list-style-type: none"> <li>H&amp;S obligations are considered in the development of all projects and programmes.</li> <li>Provision of relevant instruction, training, and supervision.</li> <li>Robust procedures in place for the reporting and investigation of accidents, incidents, and near misses.</li> </ul>				regulatory body (HSE, ORR) in response to serious H&S incidents.
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 10 Investment Programme Delivery</p>	<ul style="list-style-type: none"> <li>Through circumstances beyond their control, delivery partners / bodies may fail to deliver the full agreed scope of a WMCA Investment Programme funded Project or Programme. This may not be identified early on if monitoring mechanisms are not robust.</li> <li>HMG are demonstrating increased interest in the benefits from the Investment Programme and increased scrutiny is placed on all CA's. Many Business Cases approved in early days of the WMCA are light on monitoring and evaluation requirements when reviewed against current HMG expectations.</li> <li>Delays to the delivery of programmes, and failure to deliver elements of the WMCAs devolution commitments.</li> <li>Increased demand on resources to meet HMG expectations on information gathering and analysis.</li> <li>Revised monitoring requirements now implemented revealed 10 projects of 82 total in July 2023 report more than 6 months delay in completion date with Change Requests to notifying Approvers where extensions are sought.</li> </ul>	<ul style="list-style-type: none"> <li>Mitigating actions are limited by robustness of Funding Agreements and desire to enact clawback.</li> <li>Monitoring Arrangements in place with Delivery Partners to ensure timely monitoring and reporting.</li> <li>WMCA assurance framework is in place and resources bolstered.</li> <li>Progress of financial contributions monitored to enable coverage of all WMCA successes or early intervention of possible challenges.</li> <li>Investment Programme Monitoring and Evaluation team in place and a new Monitoring Framework rolled out.</li> <li>SAF has been rolled out.</li> <li>Funding agreements now in place with most Delivery Partners although many reflect Business Case requirements set historically and could be bolstered.</li> <li>Local Evaluation Framework to be put in place to HMG accepted standards this year and draft has been submitted to DLUHC.</li> </ul>	2	5	10	<ul style="list-style-type: none"> <li>Deliver Local Evaluation Framework; <b>The LEF is still being debated with DLUHC, who have yet to advise us whether it is an acceptable form of evaluation.</b></li> <li>Process all relevant Change Requests for the 31 projects with delays and gain approval plus put in place revised Funding Agreements.</li> <li>Ensure adoption and compliance with enhanced monitoring by Delivery Partners."</li> <li>Acceptance by HMG of the Local Evaluation Framework (now submitted).</li> <li>Interim Gateway Review will complete in March 2024 and will be a test of reported information from Delivery Partners when analysed in detail. This may trigger adjustments to how we gather information.</li> </ul>
<p><b>Financial resilience of WMCA to absorb fiscal shocks</b></p>	<p>Reduced levels of reserves / resources available to deal with fiscal shocks. The most evident causes of such fiscal shocks currently being:</p> <ol style="list-style-type: none"> <li>The ongoing effect of the pandemic on public transport services (see SRR R007), and</li> </ol>	<ul style="list-style-type: none"> <li>The Finance Business Partner model ensures finance professionals embedded within functions can proactively raise risks and issues as they emerge so that appropriate strategies can be put in place. A good example being the ongoing emerging bus industry risks (initially raised 2-3 years ago).</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>Although not all fiscal asks within the Trailblazer Devolution Deal (TDD) were landed there remains scope around the single settlement which could build flexibility (and longevity) into how WMCA funds its functions. In theory therefore, funding could be targeted towards</li> </ul>

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	<p>2. The effect of inflation and global supply chain issues (see SRR R024)</p> <ul style="list-style-type: none"> <li>The revenue budget in recent years has been supported by reserves and other one-off resources which is the case for the recently approved 23/24 budget.</li> <li>This approach limits the degree to which the WMCA can direct funding quickly towards specific, or changing, priorities and reduces the extent to which WMCA has the financial capacity to effectively deal with fiscal shocks.</li> <li>Potential to force the reprioritisation of activity, including the use of earmarked reserves to support the organisation, which will affect the delivery of regional priorities.</li> </ul>	<ul style="list-style-type: none"> <li>In this respect, while the Bus Recovery Grant has ended, DfT have confirmed that we will receive funding called BSOG+ for the period July 23 - Mar 25 to help support the network.</li> <li>WMCA has had a change request approved that allows BSIP funds to be used to provide additional financial capacity to secure the Bus network to December 2024. A further £16.6m of BSIP funding for 24/25 was announced by the government as part of Network North.</li> <li>WMCA will continue to work with and lobby Government to ensure more permanent arrangements can be put in place, including options around franchising and initial arrangements (such as depot acquisition) are being assessed in this regard.</li> </ul>				<p>areas of most need which may be relevant in the event of a 'fiscal shock' within a portfolio.</p> <ul style="list-style-type: none"> <li>While the Network North announcement has bought some short/medium term funding into the authority for transport pressures, further options for increased funding on a long-term sustainable basis continue to be explored including a Council Tax Precept, Levy uplift, subject to discussions with Exec, WM Finance Directors, Leaders.</li> </ul>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 45</p> <p><b>Inflation &amp; global supply chain pressures</b></p>	<p>Macro-economic events, such as the war in Ukraine, Brexit, and the lasting impacts of the 2019 pandemic, are placing pressure on the cost and availability of resources, resulting in: 1. Material price increases. 2. Energy price increases. 3. Availability and price of materials. 4. Availability and price of labour. 5. Market uncertainty and investor confidence concerns</p> <p>These matters impact WMCA in the following ways. <b>Project Delivery</b> - WMCA may be required to severely curtail delivery programmes, doing less for more. One example being the CRSTS programme, where this could be perceived as 'under-performance' by Government or if WMCA do not meet DfT's delivery expectations, the value of funding from DfT could be reduced either during or following the CRSTS 5-year period. <b>Operational Delivery</b>: Certain industries are more exposed than others. The Bus industry for example is severely exposed to increasing fuel prices and the availability of suitably qualified labour – see Post pandemic sustainability of public transport network. <b>Capital Delivery Transport</b>: For</p>	<p><b>CRSTS Programme Delivery</b>: WMCA are in continual dialogue with DfT over the CRSTS programme. The issues experienced are not exclusive to WMCA and DfT are liaising with other MCAs who are in receipt of CRSTS. With respect to CRSTS projects (and Investment Programme projects) which are delivered by LA partners, the funding agreements will be capped (limiting immediate exposure to WMCA). <b>Operational Delivery</b>: Where contracts provide for RPI / CPI related increases, WMCA are contractually bound but the 2023/24 budget has sought to predict the impact over the financial year and the Finance Director is happy that reasonable assumptions around revenue risks have been made within the budget. The impact on the bus network is being closely monitored and there is an ongoing dialogue with Bus Operators. WMCA continue to be in conversation with Government about the level of ongoing support required. <b>Capital Delivery Transport</b>: Project Teams have bolstered Commercial expertise within teams to ensure any excess additional costs are robustly defended and declined. TfWM re-imagined has taken account of the need to ensure adequate expertise is available and steps are underway to strengthen the</p>	5	5	25	<p><b>CRSTS Programme Delivery &amp; Capital Transport Delivery</b>: Once the DfT change control requirements are known, the programme will be re-prioritised to cater for any unavoidable overspends in line with the report to Board. If this is not possible, there may be a requirement to increase future year Levy payments and Local Authorities have been advised accordingly. <b>Operational Delivery</b>: Ongoing monitoring of RPI / CPI and the subsequent impacts with the outcomes being reported through the Financial Monitoring Report for the current year, and the Medium-Term Financial Plan for future years. <b>Capital Delivery Housing</b>: Developers must prepare for the predicted ongoing economic situation with contingency plans and agile project management, while we improve our own contract &amp; commercial management. Our focus is on considering delivery profiles and ensuring, along with</p>

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	<p>existing projects in the delivery stage, there is a risk that tightening profit margins in the construction sector mean contractors could seek to force more cost onto WMCA. Where there is no contractual protection from rising prices WMCA will need to identify additional funding to compete the schemes (or consider termination / de-scope). Additionally, availability of labour for construction works could result in extended schedules and additional cost. For projects in development, it will become more difficult to accurately cost the projects and set budgets and thereby affect the viability of the project. In others, where the impact is under-estimated, this could introduce further cost pressures into the programme. <b>Capital Delivery Housing:</b> Given that Housing Grants typically address commercial viability gaps, where costs increase, the gap will increase and hence, the value of the subsidy WMCA are required / requested to meet. This could result in either fewer projects meeting the Value for Money benchmarks and / or the funds available funding fewer projects. <b>However, delivery of affordable housing is often seen to be counter-cyclical, with more delivery being seen in times of market downturn.</b> We are starting to see evidence of delays to projects and market conditions affecting the number of projects coming online.</p>	<p>control, monitoring and reporting processes. Where additional costs (and descoping or termination) are unavoidable WMCA will need to meet these costs. WMCA have undertaken an exercise to provide early warnings to WMCA Board. The report included a strategy for how additional costs may be met using CRSTS or Levy. Costs are being monitored and matters managed on a case-by-case basis. <b>Capital Delivery Housing:</b> Principal contractors to plan and ensure materials ordered in sufficient time. Suppliers and subcontractors to manage the impact of material shortages and ensure delivery dates are maintained as scheduled. Continue to assess / monitor exposure of Inflation &amp; Market pressures on schemes / contractors / suppliers. <b>The SAF</b> requires all projects and programmes to include a contingency sum. Once the contingency is exhausted, the Accountable Body is expected to meet any cost overrun. The final option is for the Accountable Body to request a change to the project through the SAF. Programme delivery and trends are monitored via reports to Site Pipeline, Housing &amp; Land Board and Investment Board. In addition, regular pipeline development meetings are held with <b>LAs</b>, Strategic Partners and the wider market to maintain a continuous flow of projects into the programme. <b>While</b> overprogramming allows for project substitution if required to maintain funding commitment targets from HMG. <b>Affordable Housing: WMCA is working in collaboration with Homes England, local authorities and housing associations to maximise investment of the Affordable Homes Programme funding in the region.</b></p>				<p>contractors, that there is effective resource planning. We have monthly priority pipelines meetings with Local Authority colleagues, while development managers are focussed on unblocking bottlenecks in projects coming up in the next 6 months in a bid to ensure projects continue to proceed.</p>
<p><b>Financial Sustainability of the Mayoral-led CA Model</b></p>	<p>There are multiple risks around the various funding streams for Combined Authorities including. but not limited to the lack of multi-year funding models, delays to business rate reform, political support for a Council Tax Precept, real terms reduction in transport funding. By contrast, cost</p>	<ul style="list-style-type: none"> <li>• A balanced 2023/24 budget was approved by WMCA Board in February 2023.</li> <li>• The TDD provides medium-term financial sustainability for Portfolio activity but there remains a gap on Transport.</li> <li>• Regular and proactive presentation of the MTFP to Exec, Local Authority Finance</li> </ul>	<p>2</p>	<p>5</p>	<p>10</p>	<ul style="list-style-type: none"> <li>• The TDD provides some options for longer term budget certainty and these need to be worked through in due course with WM Finance Directors, specifically in relation to the Business Rates Retention values which will feature in the</li> </ul>



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Page 47	<p>bases continue to encounter upward pressure driven by various macro-economic factors.</p> <p>WMCA is legally obliged to present a balanced budget each year i.e. one where costs do not exceed incomes. In a scenario where a deficit remains, WMCA could be required to scale down or delete specific functions to balance the budget.</p>	<p>Directors, Leaders and the Mayor together with potential financial strategies to address likely budget deficits.</p> <ul style="list-style-type: none"> <li>• Close working relationship with Government with respect to the use of Government funding, particularly for areas of greatest potential exposure (i.e. the bus industry matters).</li> <li>• Risk of cost escalation transferred to Local Authorities via funding agreements where budgets are double devolved.</li> </ul>				<p>budget plans.</p> <ul style="list-style-type: none"> <li>• Development of the single settlement is underway (likely to be effective from April 2025) and while this may not impact the quantum of the funding available, it should give local leaders more flexibility over how funds are used while providing some longer-term certainty over capital and revenue allocations.</li> <li>• The MTFP for 5 years commencing April 2024 suggests a potential deficit of c.£26m in year one (rising to £64m in year five) with WMCA carrying significant risks on top of that value, predominantly with regards to bus network – as reflected in <i>Post pandemic sustainability of public transport network</i>.</li> </ul> <p>WMCA expects to be able to present a balance draft 2024/25 budget to Board in January 2024 utilising mainly short-term funding solutions while a longer-term solution continues to be developed.</p>
Cost of living crisis	<p>The UK has gone through a period of high inflation and although, at Oct/Nov 2023, inflation is now at 4.6% the cost of living crisis remains a very real threat to the WMCA, and to the citizens and businesses of the West Midlands. This is primarily driven by increases in the cost of electricity, gas, and other fuels, cost of food, and cost of transport (itself primarily driven by increases in fuel costs), and there is therefore a direct link with SRR-R024 - Inflation &amp; global supply chain pressures.</p> <p>The cost-of-living crisis is an existential threat to the WMCA through its impact on the businesses and people of the West Midlands, including many of our own staff, and through an associated threat to both our funding and revenue streams.</p>	<p><b>Citizens:</b> The response to the cost-of-living crisis is a responsibility for all layers of government. The focus for WMCA is in our ongoing business as usual activity. In particular:</p> <p><b>TfWM</b> - maintain access to affordable transport. <b>Housing and Regeneration –</b> WMCA has in a place a requirement for a minimum of 20% affordable homes on all residential projects supported by devolved housing and land funding. Through the deeper devolution deal, WMCA has strategic oversight and leadership of the Homes England Affordable Homes Programme (AHP). WMCA and Homes England are working together to invest up to £400m from the AHP to build more affordable and social housing. Recently announced flexibilities to support Estate Regeneration through the AHP are providing</p>	5	3	15	<p><b>Citizens:</b></p> <p><b>TfWM</b> - As noted elsewhere, we are working with bus operators, and discussing with Government, to ensure we maintain the existing bus network with as few changes as possible.</p> <p><b>HPR</b> – WMCA has in place Zero Carbon Homes requirements for its funding, which require homes to be more energy efficient and, in turn, reduce heating and energy bills. In response to changes to Building Regulations in the Future Homes Standard, these targets are being refined through WMCA's Future Housing programme to ensure the West Midlands continues to lead innovation and deliver the best</p>

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Page 48		<p>the opportunity to explore how a WMCA/HE dual-funded approach can support estate renewal and replace poor quality, inefficient homes with new ones which are fit for the future and cheaper to run. <b>SINZ –</b> Retrofitting houses <b>can help us meet our net Zero aspirations and</b> help citizens reduce their energy bills and move out of energy poverty.</p> <p><b>Staff:</b> Eight round tables events for staff sought to consider how the organisation could best support managers and their teams, exploring practical things the CA could do and discussing what we can all do to save money. Following this, we brought together on a single intranet page, a range of information incl: financial-wellbeing-guidance, cycle purchase scheme, season ticket loan scheme. corporate gym membership, and links to external support and our CareFirst programme. <b>As explained, in response to Capacity and Capability risk, the WMCA EXB are considering several health and wellbeing and development initiatives to potentially introduce to support staff.</b></p>				<p>outcomes for residents in this space.</p> <p><b>Staff:</b> A small TfWM task and finish group has been established to consider sustainable transport options for staff and alternatives to a travel pass.</p> <p>As explained, in response to <i>Capacity and Capability</i> risk, <b>the EXB are considering a paper setting out organisational standards that support productivity and enhance wellbeing.</b></p>
<b>TfWM Programme Cost Management</b>	<p>Inconsistent visibility of a range of dependable financial and management information at programme level, incl: forecast outturn costs; the impact of change and cost over-runs, and the visibility of whole-life costs.</p> <p>Any lack of visibility or consistency could result in over-ambitious budgets being set for programmes / projects, leading to possible cost-over runs and an inability to provide reliable cost-certainty. This could in turn result in reputational damage and reduce confidence in our ability to deliver future schemes.</p>	<p>Regular reporting to both TfWM and WMCA, the centralised capture of costs, forecasting of costs at regular intervals and management of programme finances through a Finance Business Partner structure that closely aligns TfWM's Finance function, with programme delivery.</p>	<b>5</b>	<b>5</b>	<b>25</b>	<p>TfWM re-organising its Delivery Function via <b>implementation of the Delivery Directorate. Introducing a new programme &amp; project control architecture, defining</b> ways of working, determining risk contingency draw down and mechanism for containing cost <b>exposure, schedule methodology and effective document control.</b></p> <p>Robust approach to cost categorisation, post-programme appraisal and the use of historic performance information to inform programme/project budget setting process. Investing in our staff to robustly manage capital project delivery.</p>
<b>Single Settlement - Negotiations</b>	<p><b>Following the recent ratification by WMCA Board and Local Authorities, several risks to the Single Settlement remain:</b></p>	<p><b>We are in the process of developing a comprehensive single settlement plan. This will include a question over the additional resources WMCA needs to properly deliver the</b></p>	<b>3</b>	<b>4</b>	<b>12</b>	

Title	Cause & Effect	Control measures in place	Likelihood	Impact	Score	Further action to mitigate risk
	<p><b>Failure to deliver the overall single settlement implementation plan post MoU announcement</b> and all the component parts therein, including strategy and outcomes framework development and implementation, governance and participation reforms, implementing the finance and assurance provisions and establishing the learning, insight and delivery functions we need to make a success of the settlement.</p> <p><b>Quantum</b> - We could end up with less money than we currently have. This could further increase pressure on our BAU and delivery ambitions - see wider financial risks around WMCA resilience to financial shock, and the Inflation and global supply chain pressures. At the next spending review, Treasury could implement additional spend controls on WMCA's single settlement, which would limit its effectiveness and become burdensome.</p> <p><b>Failure to deliver the overall single settlement implementation plan post MoU announcement</b> - not optimising the opportunity to deliver more inclusive growth across the region; interventions and penalties from HMG, which could trigger funding reductions and regional political embarrassment; ambiguity and confusion over who is responsible for what and a lack of joined up working across different teams working on the single settlement; and strained relationships with LAs.</p> <p><b>Quantum</b> – We reserve the right to refuse to participate in Single Settlement, should it be felt to be disadvantageous. However, the risk would be that we do not develop effective allocation formulae that generate a lower quantum of funding, even though we have secured a 'no detriment' in the text.</p>	<p>single settlement. We are developing our plans openly across the organisation to bring a broad range of expertise into the process.</p>				
<b>TDD Ratification</b>	There is a risk that the TDD will not be ratified by constituent LA members.	We are supporting LAs through their ratification processes by providing deliverables	1	1	1	TDD has now been ratified – risk will be closed.

Title	Cause & Effect	Control measures in place	Likelihood	Impact	Score	Further action to mitigate risk
	<p>This could have a significant effect on our reputation, our relationship with Government and our ongoing funding. Although we would continue to be funded as previously, we would not benefit from the opportunities that arise from the devolution deal, for example access to certain Government policy discussions that would enable us to help inform new policy the affects our region. We would also lose access to specific funding, meaning some delivery ambitions would not be achievable.</p>	<p>that will help them understand the potential benefits of the deal. Across the different workstreams in the deal, we are continually engaging with LAs to give them avenues to shape the implementation of the deal and secure their support for it.</p>				
<p><b>Local authority partners in financial difficulties or entering Section 114</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 50</p>	<p>Local Authority uncertainty of long-term funding and the relatively small growth in funding has put sustained pressure on Local Authority finances, this has been exacerbated by the increasing demand for services and low levels of general reserves to withstand fiscal shocks.</p> <p>The WMCA works in close partnership with its Constituent authorities and this inter-dependency means that if there are any financial shocks or pressures, it will impact on the wider partnership. The varied effects on WMCA would not be known at the outset, but they would be specific to each particular case and local authority partner. The general risks to the WMCA would likely extend to reputation, delivery and policy consequences.</p>	<p>Engagement with LA Partners, finance Directors and leaders, in respect of finances, budgets, and fiscal pressures. The majority of capital payments and investment programme activity with local authority partners are paid in arrears, thereby limiting our exposure. When an issue does emerge, we will monitor it and assess the potential impact on WMCA.</p>	5	5	25	<p>We are seeking advice from the Chartered Institute of Public Finance and Accountancy as to how a local issue could impact regionally. <b>We continue to work closely with Constituent authorities to understand the impacts of financial difficulties and S114.</b></p>

Issue Priority	Issue Title	Issue Description	Issue Owner	Action Title	Action Description	Action Owner	Action due date	Action Status	Issue Status
Red	Metro - 2GT fleet crack propagation	<p>1. Cracks propagating in 2GT fleet prior to entry into Car Body repair programme. Dudley VLR repair schedule means potential delay return of trams to service and increased need of stabling</p> <p>2. Operating a reduced service until more 2GT trams can be repaired, resulting in pressure on MML Operations to provide a sustainable service.</p> <p>3. Stalemate on CAF negotiations for 2GT fleet crack repairs; and non-agreement with CAF regarding bogie box liability.</p>	Exec Dir TfWM	Repair programme	<p>The second phase of repairs is now complete. Two vehicles are in Dudley awaiting work to start on the 3rd Tranche of repairs.</p> <p>Tranche 3 work was due to commence mid-November but this has been delayed because of: TfWM having a number of outstanding comments regarding the repairing solution for tranche 3 repairs, and CAF awaiting receipt of materials to site.</p> <p>In addition, the remaining cracks being monitored are not showing any significant propagation.</p>	MMA	Ongoing	Open On Track	Open on Track
	TfWM - Technical Financial Breach	Wolverhampton Interchange scheme: the accrued value of works instructed and undertaken exceeded the approved budget. This is an indication of a	Exec Dir TfWM	Breach of Financial Regulations	The Independent investigation into this issue is completed and we are in the process of implementing the recommendations. An independent audit into	Exec Dir Finance	Ongoing	Open On Track	Open on Track

Issue Priority	Issue Title	Issue Description	Issue Owner	Action Title	Action Description	Action Owner	Action due date	Action Status	Issue Status
		weakness in cost control practices and represents a breach of financial regulations.			the implementation of the recommendations will follow and will report to the Executive Board in due course.				
Page 52	<b>Buckingham Group Contracting Limited has gone into administration.</b>	<b>Delivery</b> – Buckingham Group Contracting Limited (BGCL) are the principal contractors responsible for the design build of Darlaston and Willenhall (Package 1 Rail Stations). Works are currently stood down on site as a result of the administration process and no progress on delivery will be made until a new principal contractor is appointed. Kier Integrated services Limited have purchased the rail assets (including contracts). The Package 1 contract has not been purchased but is identified in the sale and purchase agreement between BGCL and Kier.	Exec Dir TfWM	Impact assessment & recommendation on contract position	<ul style="list-style-type: none"> <li>The design and build contract has been novated to Kier Integrated Services Limited ('Kier'). Although novating the contract from BGCL to Kier was deemed more cost effective and allowed for more efficient delivery than re-procuring the works, there could be an impact to both cost and schedule.</li> </ul>	Exec Dir TfWM	13/10/2023	Completed	Completed

Issue Priority	Issue Title	Issue Description	Issue Owner	Action Title	Action Description	Action Owner	Action due date	Action Status	Issue Status
Page 53		<p>The purchase will complete once a deed of novation is signed.</p> <p><b>Financial</b> – Affordability and impact on ability to deliver within the funding envelope. Increased costs resulting from prolongation associated with the administration process (applicable to both novation and re-procurement) and additional costs (legal fees, site security etc).</p>							

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## Audit, Risk & Assurance Committee

<b>Date</b>	30 January 2024
<b>Report title</b>	2024/25 Treasury Management Policy, Strategy and Practices.
<b>Portfolio Lead</b>	Cllr Bob Sleigh OBE
<b>Accountable Chief Executive</b>	Laura Shoaf Chief Executive Email: <a href="mailto:Laura.Shoaf@wmca.org.uk">Laura.Shoaf@wmca.org.uk</a> Tel: 0121 214 7552
<b>Accountable Employee</b>	Linda Horne WMCA Executive Director of Finance and Business Hub Email: <a href="mailto:Linda.Horne@wmca.org.uk">Linda.Horne@wmca.org.uk</a>
<b>Report has been considered by</b>	Not Applicable

### Recommendation(s) for action or decision:

#### ARAC is recommended to:

- 1 Review and endorse the draft 2024/25 Treasury Management Policy Statement (TMPS) (Section 2 of this report) for onward approval by WMCA Board in February 2024.
- 2 Review and endorse the Draft 2024/25 Treasury Management Strategy (TMS) (Appendix 1) including the 2024/25 Investment Strategy and criteria for specified and non-specified investments (Appendix 2) for onward approval by WMCA Board in February 2024.
- 3 Note and agree the arrangements for ensuring Treasury Management Practices are adequately maintained (Section 4).

## **1. Purpose**

- 1.1 WMCA as a public body is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) in discharging all its financial responsibilities. This report and accompanying Treasury Management Practices are fully compliant with the Code.
- 1.2 In relation to Treasury Management, the Code states that an organisation should delegate responsibility for the implementation and regular monitoring of its Treasury Management Policies to an independent scrutiny function. At WMCA that function is carried out by Audit, Risk & Assurance Committee. Officers are subsequently obliged to operate within the Treasury Management Strategy parameters as set and monitored by the scrutiny function.
- 1.3 ARAC members receive an annual overview of the regulatory environment and WMCA's Treasury Management Practices by our external advisors, Link Group. A refreshed training session has been arranged to coincide with the publication of the 2024/25 Treasury Management Strategy.
- 1.4 The report sets out WMCA's Treasury Management Policy Statement (below) and Treasury Management Strategy (Appendix 1) for review and endorsement by ARAC prior to submission to WMCA Board in February 2024.

## **2 Treasury Management Policy Statement**

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

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

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

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

2.4 The draft 2024/25 Treasury Management Policy Statement (TMPS) is shown below for review and endorsement by ARAC. There have been no changes to the TMPS from the 2023/24 statement.

### **2024 / 2025 Treasury Management Policy Statement**

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

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

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

### 3. WMCA 2024/25 Treasury Management Strategy

- 3.1 Following on from the Treasury Management Policy Statement above, the Treasury Management Strategy defines how the policy will be adhered to and provides a framework for WMCA treasury practitioners to operate within.
- 3.2 ARAC are requested to review and endorse the Draft 2024/25 Treasury Management Strategy which features as Appendix 1 to this report; for onward approval by WMCA Board in February 2024.
- 3.3 The table below summarises the principal changes between the current (2023/24) strategy and that for financial year 2024/25:

Topic	2024/25	2023/24
<b>Minimum Liquidity Requirements</b>	<ul style="list-style-type: none"> <li>• £50m rolling three month basis</li> </ul>	<ul style="list-style-type: none"> <li>• £20m rolling three month basis</li> </ul>

Financial year 2024/25 (and years thereafter) are forecast to see a significant pick up in cash expenditure in respect on capital projects funded via government grants received in advance. Consequently, minimum liquidity levels – cash that is available at instant or near instant access – will rise to ensure resource is available as payments to contractors and constituent member authorities fall due.

Investment Criteria	2024/25	2023/24
UK Local Authorities	£30m	Unlimited
SSA Bonds	£30m	Unlimited

Money Market Funds	£30m per fund manager	£20m per fund manager
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The 2024/25 investment criteria will cap individual investments with UK Local Authorities and SSAR bonds (sterling denominated Supranational and Multilateral Development Banks instruments) at £30m to provide sufficient operational headroom whilst limiting individual exposure to no more than c.3% - c5% of the total authority portfolio. Further information on the utilisation of deposits with UK Local Authorities and SSAR bonds can be found within the notes to Table 5 in the Annual Investment Strategy. UK government criteria is retained as “unlimited” to enable funds to be placed with the Debt Management Office (DMO), T-Bills, or gilts in the event of increased risks in financial markets as was demonstrated in 2008 and during the early months of the COVID pandemic in 2020.

The limit on AAAMf Money Market Funds has been increased from £20m per fund manager to £30m per fund manager in light of the increase in the Minimum Liquidity Requirement noted above. Money Market Funds are tightly regulated mutual funds of high credit quality providing daily access for cash deposits and withdrawals. They invest in high quality, short-term debt securities and pay dividends that generally reflect short-term interest rates.

#### 4. Treasury Management Practices

- 4.1 Finally, recommendation 3 within this report requests that ARAC note and agree the arrangements for ensuring Treasury Management Practices (TMPs) are adequately maintained. The revised 2021 CIPFA Code recommends that authorities should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- 4.2 WMCA maintain TMPs in line with the relevant guidance. These practices set out the manner in which the organisation will seek to achieve the policies and objectives and documents how it will manage and control those activities.
- 4.3 There are currently twelve individual practices which cover:
- Risk management;
  - Performance measurement;
  - Decision-making and analysis;
  - Approved instruments, methods and techniques;
  - Organisation, clarity and segregation of responsibilities and dealing;
  - Reporting requirements and management information arrangements;
  - Budgeting, accounting and audit arrangements;
  - Cash and cash flow management;
  - Money laundering;
  - Training and qualifications;
  - Use of external service providers;
  - Corporate governance.
- 4.4 CIPFA’s 2021 Code also requires Authority’s to address **Environmental, Social, and Governance (ESG)** issues within their treasury management policies and practices

(TMP1). WMCA's ESG risk management policy document is included at Appendix 3 for reference.

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

## **APPENDIX 1**

### **Treasury Management Strategy 2024/25**

#### **Introduction**

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

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

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

The strategy for 2024/25 covers the following main areas:

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

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

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

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

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The

treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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

### **Current Treasury Position**

The overall treasury management portfolio as at 31<sup>st</sup> March 2023 and for the position as at 31<sup>st</sup> December 2023 are shown below for both borrowing and investments.

**Table 1 Treasury Management Portfolio**

	<b><u>Actual</u></b>	<b><u>Actual</u></b>	<b><u>Current</u></b>	<b><u>Current</u></b>
	<b><u>Mar 23</u></b>	<b><u>Mar 23</u></b>	<b><u>Dec 23</u></b>	<b><u>Dec 23</u></b>
<b><u>Treasury Investments</u></b>	<b><u>£m</u></b>	<b><u>%</u></b>	<b><u>£m</u></b>	<b><u>%</u></b>
Call Accounts - Banks	2.05	0.3	0.75	0.1
Local Authorities / Housing Associations	623.50	89.0	767.57	87.4
Banks / Financial Institutions	59.95	8.4	90.00	10.3
Money Market Funds	26.50	1.6	15.00	1.7
<b>Total Managed In House</b>	<b>712.00</b>	<b>99.3</b>	<b>873.32</b>	<b>99.5</b>
Property Funds / REITs	4.71	0.7	4.65	0.5
<b>Total Managed Externally</b>	<b>4.71</b>	<b>0.7</b>	<b>4.65</b>	<b>0.5</b>
<b>Total Treasury Investments</b>	<b>716.71</b>		<b>877.97</b>	
<b><u>Treasury External Borrowing</u></b>				
PWLB	484.67	95.4	476.19	71.7
Banks	19.56	3.9	119.35	18.0
Temporary Borrowing	0.00	0.0	64.50	9.7
Transferred Debt	3.67	0.7	3.67	0.6
<b>Total External Borrowing</b>	<b>507.90</b>		<b>663.71</b>	
<b>Net treasury investments/(borrowing)</b>	<b>208.81</b>		<b>214.26</b>	

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



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

£M	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Opening External Debt	511	597	581	562	553	540
New Borrowing	100	-	-	-	-	-
Repayments	14	16	19	9	13	13
<b>Forecast Closing External Debt</b>	<b>597</b>	<b>581</b>	<b>562</b>	<b>553</b>	<b>540</b>	<b>527</b>
Capital Financing Requirement (CFR)	826	992	968	951	930	905
Under Borrowing	229	411	406	398	390	378

WMCA has an increasing CFR – rising from a forecast £826m at the end of 2023/24 to £992m at the end of 2024/25 - due to its capital programme, mostly driven by the delivery of the Investment Programme. The Authority is currently ‘under borrowed,’ meaning that internal cash-backed resources such as balances, reserves, and working capital (predominantly capital grants received in advance) can be deployed to offset external borrowing.

CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that WMCA’s total debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that WMCA expects to comply with this recommendation during 2024/25 to 2028/29.

### **Limits to Borrowing Activities**

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

**Table 3 WMCA Operational Boundary**

£M	2024/25	2025/26	2026/27	2027/28	2028/29
Operational Boundary	992	968	951	930	905

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

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

**Table 4 WMCA Authorised Limit 2024/25 – 2028/29**

£M	2024/25	2025/26	2026/27	2027/28	2028/29
Authorised Limit	1,022	998	981	960	935

### Prospects for Interest Rates

WMCA has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 8th January 2024. PWLB forecasts are for certainty rates, 20 basis points below PWLB standard rates, to which WMCA has agreed access.

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>BANK RATE</b>	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Link expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. They do not think that the MPC will increase Bank Rate above 5.25%.

They expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness). Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

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

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

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

## **Borrowing Strategy**

As at 31 December 2023 WMCA currently holds £596m of long-term loans, an increase of £83m on the previous year following the draw down of £100m in August 2023 and net of other repayments of principal in year. The £100m facility was a fixed rate forward funding loan arranged in 2022 to unwind a proportion of WMCA's previous under borrowing and mitigate against interest rate increases. WMCA may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

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

**Strategy:** The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy - that is, the Bank Rate increases implemented throughout 2022 and 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

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

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

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

- HM Treasury's lending facility (i.e., Public Works Loan Board)
- UK Infrastructure Bank
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body

- UK public and private sector pension and insurance funds (except West Midlands Local Government Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

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

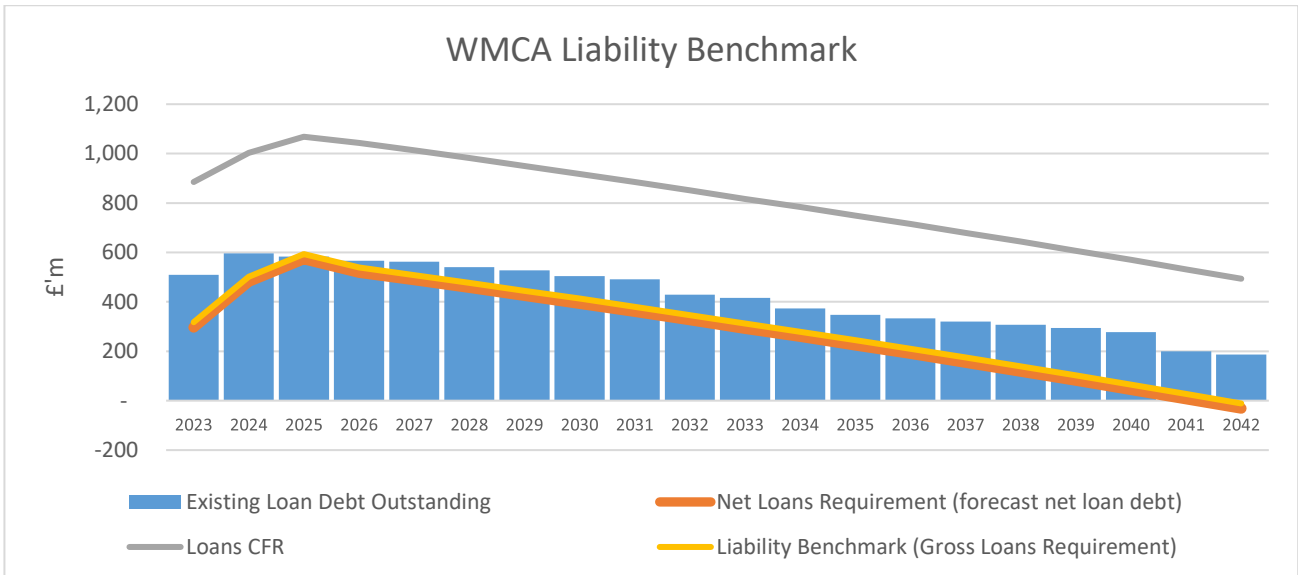
### **Liability Benchmarking**

In accordance with the Code of Practice, the Authority is required to estimate and measure its Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum. WMCA's benchmark (see below) includes measurements up to 2043 (20 years)

There are four components to the LB: -

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

The outcome of the above produces a benchmark for new borrowing/refinancing which can be assessed against interest rate forecasts for sensitivity. The chart below shows WMCA's revised benchmark for 2024/25 onwards which is heavily influenced by the borrowing need arising from the WMCA Investment Programme as per the first devolution deal in 2016:



**Debt rescheduling**

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

**Policy on Borrowing in Advance of Need**

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

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

## **Annual Investment Strategy**

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

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

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

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

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

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

- a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- b) Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- c) Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- d) This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. See Appendix 2.
  - i. Specified investments are those with a high level of credit quality and subject to a maturity limit of one year *or* have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

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

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

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

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

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

i) All investments will be denominated in sterling.

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

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

### Creditworthiness Policy

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

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

The Executive Director of Finance and Business Hub will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Board for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of



counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

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

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

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

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

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

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

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

**Government / Supranational and Multilateral Development Bank bonds (SSAR Bonds):** Loans, bonds and bills issued or guaranteed by national governments, regional authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Full regard will therefore be given to other available information on the credit and environmental, social, and governance

(ESG) quality of the organisations in which it invests. No investments will be made with an organisation if there are substantive doubts about its credit or ESG qualities, even though it may otherwise meet the above criteria.

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

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

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

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

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

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

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

**Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to

money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

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

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

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

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

### Investment Strategy

WMCA holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2023/24 year to date WMCA's treasury average monthly investment balance has ranged between £820m and £990m. Levels are expected to fall in overall terms in 2024/25 but this is subject to the timing of government grant receipts and/or delays in capital expenditure profiling.

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

**Strategy:** Investments will be made with reference to WMCA core balances and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy will be appropriate to optimise returns.

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

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

Average earnings in each year	
2024/25	4.6%
2025/26	3.1%
2026/27	3.0%
2027/28	3.3%
Long term later years	3.3%

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

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

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

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

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

**Other information on the security of investments:** WMCA understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given

to other available information on the credit quality of the organisations in which it invests. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

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

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

**Table 6: Additional Investment limits**

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

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

**Use of External Providers**

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

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

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

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

## **Treasury Management Indicators**

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

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

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

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

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

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

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

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

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

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

## **Related Matters**

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

### **Financial Derivatives**

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

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

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

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

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

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

### **Investment Training**

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

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

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

### **Treasury Management Consultants**

WMCA uses Link Group as its external treasury management advisors.

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

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



## APPENDIX 2

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

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

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

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

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

The investment policy proposed for the Authority is:

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

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

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

- The UK Government (such as the Debt Management Account Deposit Facility (DMADF), UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.

- A body that is considered of a high credit quality (such as a bank or building society) This category covers bodies with a minimum Short-Term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

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

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

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

## Appendix 3

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

#### WMCA ESG Policy

Key Message:

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

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

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

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

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

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

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

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## Audit, Risk & Assurance Committee

<b>Date</b>	30 January 2024
<b>Report title</b>	Information Governance Annual Report
<b>Accountable Chief Executive</b>	Laura Shoaf, Chief Executive
<b>Accountable Employee</b>	Gurmit Sangha, Data Protection Officer WMCA Email: <a href="mailto:gurmit.sangha@wmca.org.uk">gurmit.sangha@wmca.org.uk</a>
<b>Report has been considered by</b>	N/a

**Recommendation(s) for action or decision:**

**The Audit, Risk and Assurance Committee recommended to:**

- (1) Note and consider the key messages in the annual information governance update on the processing of information at WMCA.
- (2) Provide comment and opinion on future information governance activity.

**1. Purpose**

This report seeks to provide the Audit, Risk and Assurance Committee sufficient information on the WMCA meeting its obligations under the UK General Data Protection Regulation, the Data Protection Act 2018, any other applicable law relating to the processing, privacy and/or use of Personal Data and the Freedom of Information Act 2000, highlighting:

- Key information governance activities undertaken during 2023.
- The most significant current and emerging Data Privacy information governance issues.
- The measures WMCA intends to implement during 2024 to improve and ensure we meet data protection compliance standards.

## **2. Background**

Data protection legislation is designed to protect “personal data.” It regulates the processing of this data setting obligations on any organisation handling personal information (Information from which an individual can be identified).

WMCA must meet its statutory responsibilities effectively and protect the personal information it holds throughout its life cycle; from creation through storage; use, retention, archiving and deletion. Failure to meet the data protection regime can result in financial loss, regulatory fines, legal action, and reputational damage.

WMCA has since 2018 overseen data protection governance through the statutory post of Data Protection Officer which we are mandated to have in place by the Data Protection Act 2018.

## **3. Overview of key enhancements in 2023**

### **3.1 Information Governance Structure:**

WMCA has restructured its information governance regime during 2023 to strengthen this area of work.

- Resourcing for information governance has been increased from 2024 from one post to three posts. The extra resourcing will provide greater scope to monitor and improve compliance regimes, as well as being able to demonstrate assurance both internally and if required to an external regulator.
- All three information governance officers will report into the newly created Head of Audit and Information Governance post which has now been successfully recruited to. The move will bring a more audit based and analytical approach to obtaining assurance around information processing.

The Head of Audit and Information Governance will also undertake responsibilities of Deputy Senior Information Risk Owner (Deputy - SIRO) for data processing carried out by WMCA. The SIRO (WMCA Chief Executive) is responsible for the overall ownership of WMCA’s information risk assurance and strategy. The Deputy SIRO will lead the ongoing assurance and monitoring activities of information governance.

- Establishment of a new Information Governance Group (IGG) in 2023 with new defined terms of reference and meeting bi-monthly. IGG will spearhead all work around improving information governance and compliance. Its forward plan for 2024 is set out within section 5 below.

### **3.2 Review of Information Governance policies:**

During 2023 the following information governance policies were reviewed and amended to ensure they remain fit for purpose:

- Data Protection Policy
- Information Security Acceptable Use Policy
- Information Security Incident Reporting Policy
- Information Security Management Framework
- Information Security Policy
- Information Security Internet and Email Use Policy

First half of 2024 will include work on disseminating the content and requirements of the above policies across WMCA.

During 2024 we will also undertake an overhaul of the following policies:

- Information retention and disposal policy
- Security Incident Reporting Procedure
- AI Use Policy

### **3.3 Technical security:**

As with all organisations the risk of criminal cyber activity remains significant. WMCA Digital and Data team implement a range of controls designed to prevent such activity. These controls have successfully detected and mitigated malicious activity and/or suspicious events. Additionally, the Digital and Data team has amongst other workstreams:

- Commenced a Cyber Remediation Plan.
- Improved position re: backup & restore.
- Undertaken penetration testing.
- Implemented 2 factor authentication on all accounts.
- Reviewed all WMCA user accounts and closed inactive accounts.
- Reviewed security tools to ensure that we are maximizing their application them.
- Reviewed software to ensure it up to date.

The work undertaken by the Digital & Data team around the technical protection of information provides assurance. However globally 2023 highlighted the importance of WMCA avoiding complacency. The message from the Information Regulator is that those tasked with monitoring risk and assurance should continue to focus on and analyse their organisations activity in this area to maintain the best possible risk mitigation. The risk assurance challenge magnifies with the ever-increasing reliance on digital technology to support business activities.

### **3.4 Cyber Essentials.**

Remedial work to obtain Cyber Essentials accreditation continued during 2023. The continued absence of this accreditation remains an ongoing issue, and the Committee will be aware of the history of this matter. Accreditation will be achieved in 2024 and importantly the Data Protection Officer will stress the need for the Digital and Data Team to maintain accreditation through active workstreams.

### **3.5 Bring Your Own Device (BYOD)**

BYOD involves the access of WMCA data from remote devices (Mobile phones, tablets, etc). It has been a longstanding area of concern having grown organically without any controlled governance. The process of seeking Cyber Essentials has expediated an implementation of BYOD governance. This will include the introduction of a BYOD policy that will enable a level of compliance to be applied in this area. External advice and support has been obtained in this area during 2023. It is anticipated that a formal policy will be introduced in 2024.

WMCA Information Governance Group will monitor BYOD to ensure best practice is followed in this area.

### **3.6 Information Security Incidents**

An information security incident refers to the actual or potential loss, destruction, or unauthorised access to information. We are required by data protection legislation to report to the Office of the Information Commissioner (ICO) the most serious incidents.

The numbers of such incidents reported in 2023 remain low.

No incidents required reporting to the ICO.

We are currently reviewing our incident reporting mechanisms and awareness of reporting across the organisation as part of a wider business continuity review. The aim would be to introduce more robust reporting and empower staff across WMCA to be proactive when a breach may occur, so that we can deal with the issue, but also learn from it as part of continuous improvement.

Once steps to improve reporting are put in place, we anticipate an increase in reported incidents at the lower risk/impact scale over 2024.

### **3.7 Communications and Information Handling Awareness Raising**

The Office of the Information Commissioner has reflected that employees are often the weakest link in terms of causing incidents. WMCA reported information security incidents also reflects this, and technical measures will never be totally effective especially given the increased sophistication of cyber-attacks including phishing. The move to more home working has increased the risk of this and so employee awareness is more important than ever. This is generally achieved via staff training together with other forms of communication to improve awareness.

We continue to raise awareness with staff and work with WMCA Learning and Development team to deliver the most effective information handling messages. During 2024 we will focus on awareness raising in selected areas rather than a broad sweep. This will help mitigate higher risk areas and improve maturity in those areas.

### **3.8 General**

The ongoing programme of implementing privacy by design, maintaining data processing transparency, contractual data protection legalities, providing advice/assistance across WMCA on the processing of information, and fulfilling the requirements of data protection legislation have been maintained since the last Information Governance report before the Committee.

### **3.9 Freedom of Information and Subject Access**

During 2023 WMCA received 152 Freedom of Information requests and 5 Subject Access Requests for personal data. 93% of requests were responded within the statutory time limit.

2 requestors appealed to the Information Commissioner on the handling of their requests. Both matters were successfully resolved.

## **4. Emerging Data Privacy, Cyber Security, and Information Governance (IG) issues**

### **4.1 Payment Card Industry Data Security Standard (PCI DSS)**

The PCI DSS Standard is an information security standard designed to reduce payment card fraud by increasing security controls around cardholder data. It aims to ensure credit



card transactions processed by an organisation are safe and there are safeguards against any potential breaches. WMCA processes PCA DSS data in several areas.

A new version of the PCI DSS standard (version 4.0) goes into effect on 31 **March 2024**, and has 63 new requirements. WMCA will ensure any new requirements of the standard are met. However, PCI DSS compliance has not been subject to a formal audit at WMCA, and this may be something the Committee may wish WMCA to address.

## **4.2 WMCA Information Governance and security Frameworks**

A key principle of the UK GDPR is that we must process personal data securely by means of 'appropriate technical and organisational measures' – this is the 'security principle of data protection legislation.

To address the above in 2021 WMCA committed to attaining compliance and measuring against the levels mandated by HMG Security Policy Framework (HMG SPF) and Government Security standard 007. Unlike for example the ISO 27001 information standard HMG SPF does not require a formal accreditation or certification process but sets out workstreams to meet the principle.

There is a view within WMCA that the above is not the most appropriate standard for WMCA to measure itself against.

WMCA information Governance Group will seek to firstly find a consensus on the most appropriate standard to measure information security and governance against. Secondly the Group will ensure that it is universally adopted throughout the organisation and there is a more robust review of operations against the standard(s) adopted. The appointment of the Head of Audit and Information Governance will provide gravitas to this activity.

## **4.3 Information Asset Registers and Information Asset Owners**

The role of an Information Asset Owner (IAO) is to oversee the information assets (information held and processed) within their business area. They play a key role in fostering good information handling. An effective IAO should know:

- What information their team/department holds, what information is transferred in or out of it and what systems it links to.
- Know who has access and why and ensure that their use is monitored.
- Understand and address risks to the asset.
- Ensure the asset is fully used for its intended purpose or for the individual it relates to, including responding to access requests.

Information Asset Registers record the information held and how it is processed within the team/department. Additionally, they address a fundamental component of the UK GDPR (Article 30) that organisations to maintain detailed documentation of the processing activities it undertakes in relation to personal data.

We recognise there is some work to do be done in this area. During 2024 we will be reviewing the nomination of Information Asset Owners, their understanding of the role, and revisiting our approach to managing information assets.

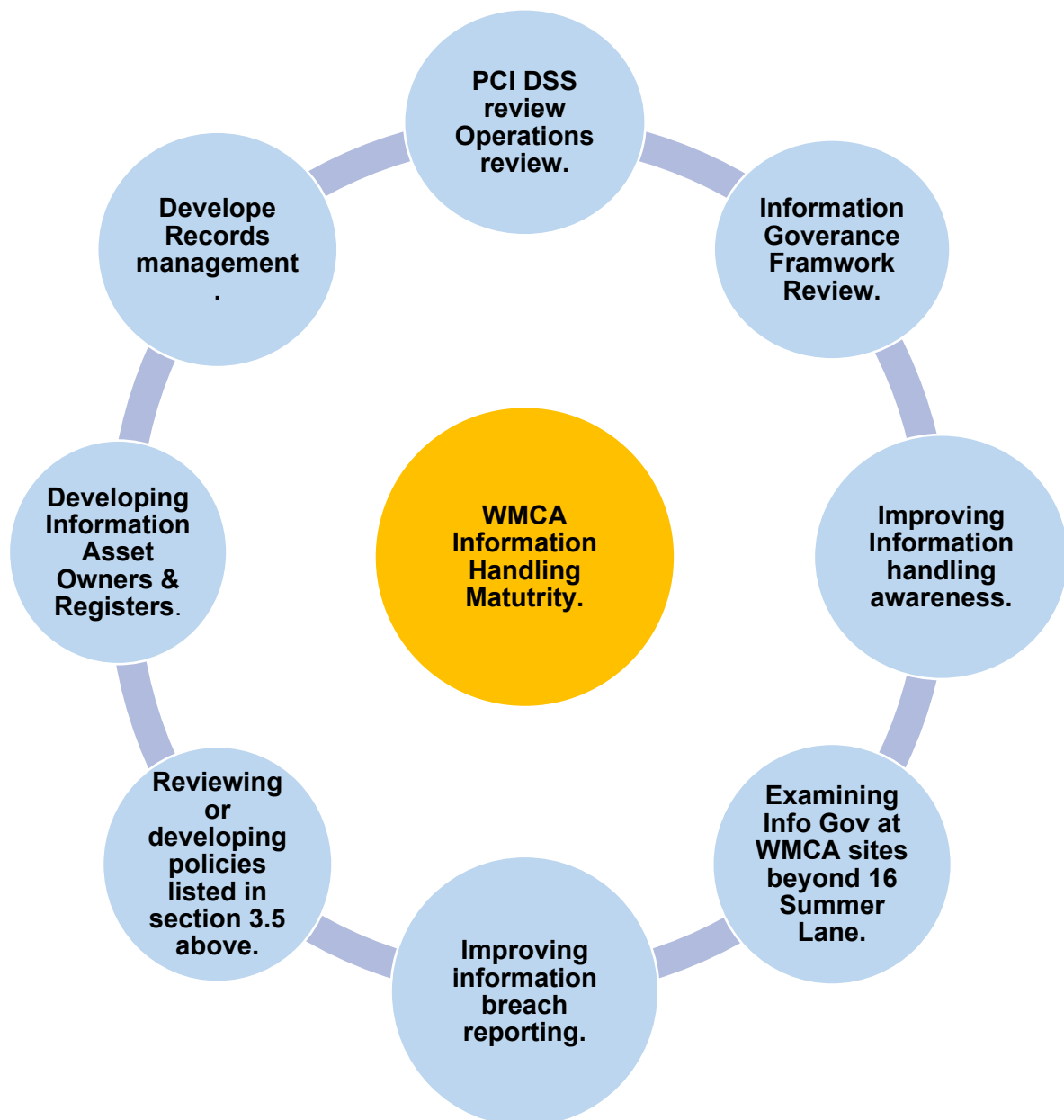
## **4.4 Records Management**

Records management (the storage, naming and classification of documents) at WMCA operates predominantly at a local departmental/team level. Organisationally we provide a lower strategic lead in this area than other public bodies. Whilst this may have been

appropriate at formation of the Authority as our work has expanded through devolution from a transport authority to other areas of responsibility, greater strategic control may be needed. We will be undertaking a review of this area which will aim to ensure accurate, accessible, and protected information is retained.

## 5. 2024 Information Governance forward plan

The following diagram sets out the activity plan for the Information Governance Group during 2024. This work will look to strengthen WMCA maturity in the handling of personal information and thereby all other data.



**6. Conclusion**

The matters raised in this report should provide the Committee with assurance that WMCA understands the information risks that it faces and has in place and/or is developing processes and procedures to effectively manage Information Risk. Several key deliverables have been progressed over the last 12 months to develop a more robust approach to the effective management of Information Risk. The work planned for the coming 12 months should provide the Committee with additional assurance that there are appropriate plans in place to further embed key policies, procedures, and best practice.

**7. Financial Implications**

N/a

**8. Legal Implications**

N/a

**9. Single Assurance Framework Implications**

N/a

**10. Equalities Implications**

N/a

**11. Inclusive Growth Implications**

N/a

**12. Geographical Area of Report's Implications**

N/a

**13. Other Implications**

N/a

**14. Schedule of Background Papers**

N/a

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## Audit, Risk and Assurance Committee

<b>Date</b>	30 January 2024
<b>Report title</b>	Internal Audit Update
<b>Accountable Chief Executive</b>	Laura Shoaf, Chief Executive Email: <a href="mailto:Laura.Shoaf@WMCA.org.uk">Laura.Shoaf@WMCA.org.uk</a>
<b>Accountable Employee</b>	Helen Edwards, Director of Law and Governance Email: <a href="mailto:Helen.Edwards@WMCA.org.uk">Helen.Edwards@WMCA.org.uk</a>
<b>Report has been considered by</b>	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

#### **8.0 Other implications**

8.1 Not applicable

#### **9.0 Schedule of background papers**

9.1 None

#### **10.0 Appendices**

Appendix 1 – Budgetary Control audit report

Appendix 2 – General Ledger audit report

Appendix 3 – Payroll audit report

Appendix 4 – Treasury Management audit report

Appendix 5 – 2023/24 Internal Audit plan



# **West Midlands Combined Authority**

Internal Audit Update Report – 30 January 2024

## 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 <sup>1</sup> Rating	Level of assurance obtained
<b>Internal Audit Reviews previously reported</b>		
Procurement Exemption arrangements	High	Limited
IR35	High	Limited
Adult Education Budget	High	Satisfactory
External Funding Arrangements	High	Satisfactory
Gifts and Hospitality arrangements	High	Limited
Health & Safety	Medium	Satisfactory

<sup>1</sup> Audit Needs Assessment rating



Auditable area	ANA <sup>1</sup> Rating	Level of assurance obtained
<b>Audit Reviews completed this period</b>		
KFS - Budgetary Control	High	Substantial
KFS - General ledger	High	Substantial
KFS - Payroll	High	Satisfactory
KFS - Treasury Management	High	Satisfactory
<b>Audits in progress</b>		<b>Status</b>
TfWM review	n/a	In progress
Adult Education Budget – Procurement	High	In progress
Key Financial Systems (KFS) Accounts payable Accounts receivable	n/a	In progress
Contract Management	High	In progress
Monitoring & Evaluation	High	In progress
Swift	High	Resourcing allocated
NFI	Medium	Resourcing allocated
Business Continuity	Medium	Resourcing allocated

### 3. *Audits completed this period*

#### **Key Financial Systems**

A review of the WMCA’s key financial systems has been completed as part of the 2023/24 internal audit plan, with the objective being to provide assurance that adequate controls are in place for the administration of key financial systems, and these are operating in accordance with the Financial Regulations and documented procedures.

This audit included a review of the 6 functions that form the overarching financial systems, and as the previous year’s audits resulted in a substantial audit rating for 4 of the 6 functions, the audit of these areas was limited to a high-level review only on this occasion.

A review of the delivery of all audit actions arising from the 22/23 key financial systems audits was included as part of this review, and attention was also given to the arrangements in place within Treasury Management to provide assurance the measures taken in response to a previously identified control issue of the maximum allowance of Forward Dealt Loans, had been resolved and that the system remains fit for purpose.

A summary of the audit outcomes is shown in the table below, with full details of the findings contained in the associated reports, attached as appendices 1 to 4. It should be noted the Accounts Payable and Accounts Receivable audits remain outstanding at the present time and will be reported to this committee upon completion.

System	22/23 audit rating	23/24 audit rating	Recommendations		
			Red	Amber	Green
Budgetary Control	Substantial	Substantial	-	0	0
General Ledger	Substantial	Substantial	-	0	0
Payroll	Satisfactory	Satisfactory	-	3	1
Treasury Management	Substantial	Satisfactory	-	1	1

#### 4 Unplanned audit activity

The team carried out one external grant certification in December 2023 to fulfil the requirement for an “Independent Reasonable Assurance Report (“Accountant’s Report”)”, as required by the external funding body. The programme is funded by Innovate UK with its purpose being to support the West Midlands Innovation Programme in delivering the innovation framework that sits within the West Midlands Plan for Growth.

On completion, Internal Audit was able to provide assurance to the supplier that all funding has been utilised in accordance with the funding terms and conditions.

#### 5 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
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
Health & Safety	Satisfactory	16/11/23	31/01/24	-	1	-	1

\* The number of recommendations completed reflects the opinion of the auditee only and the status as at 31 December 2023.

Ten actions are 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. Budgetary requirements are currently being assessed and sourced.
- **Procurement Exemptions:** A review of the Purchasing Manual has been completed with a revised draft manual currently being assessed by relevant parties prior to final approval being sought in February 2024. The remaining 2 actions will be considered complete once approval has been obtained.
- **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.
- **Gifts & Hospitality:** The gifts and hospitality policy has been updated and is awaiting approval. When obtained, this will inform the required actions resulting from the 4 remaining recommendations identified in the audit. Interim measures were put in place to accommodate the declaring gifts and hospitality during the festive season with the recording of items having subsequently been evidenced by Internal Audit.

## 6. *Delivery of the Internal Audit plan*

As highlighted in the December update to ARAC, staffing constraints and the requirement to redirect resources to unexpected matters has resulted in our inability to deliver the 23/24 Internal Audit plan in full, as planned.

A review has been undertaken to prioritise audits that must be completed in year, alongside consideration of planned audits where the risk exposure has significantly reduced or where operational changes have been made in-year to determine where audits are no longer required or can be deferred to the 24/25 internal audit plan with no detriment to the associated risk.

Internal Audit is currently operating with 4 contractor auditors in place and as at 1<sup>st</sup> January 2024, it is anticipated this will provide 228 days of resources for auditing purposes. An allowance of 20 days has been allocated for the completion of each audit, and an expectation each officer will have up to 3 audits in progress at any time. Based on these figures it is estimated that the audit team has the capacity to progress 10 further audits, including those already in progress, by the end of the financial year, as shown in the table below.

In progress	For progression in Q4	To be deferred/removed
Accounts Payable	Swift	Decision making
Accounts Receivable	NFI	Active Travel Fund
Adult Education - Procurement	Business Continuity	Asset Acquisition and Disposal framework
Contract Management	UK shared prosperity Fund	Activity register
Monitoring & Evaluation	Energy Efficiency Retrofit	Deeper Devolution deal
Grant certifications x 2	Operator charging	

Details of the current risk environment and reasons for the removal or deferral of an audit has been recorded in the overall plan, attached as appendix 5 for information.

With two audits from the plan having been completed and presented to ARAC previously, this will represent progression of 77%<sup>2</sup> of the original 2023/24 internal audit plan, as approved by ARAC in April 2023. It should be noted however, this is subject to any unknown changes in the availability of resources and/or the receipt of any unplanned audits or investigations requiring priority attention because of potential fraud or whistleblowing matters.

Whilst the on-boarding of the new in-house audit team will be completed before the end of the 23/24 financial year, it is expected the team will require a period of time for induction and the development of new policies and procedures. They have therefore not been included as available resources for the purposes of this review.

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<sup>2</sup> Key Financial systems has been calculated as 6 individual audits, resulting in 22 audits being contained in the original audit plan.



# West Midlands Combined Authority

## Internal Audit Report:

### *“Key Financial Systems - Budgetary Control”*

**Report Date:** 15 January 2024

**Report Distribution:** Louise Cowen, Head of Financial Management  
Anne Bull, Chief Accountant Finance  
Linda Horne, Executive Director of Finance and Business Hub

## 1. Executive summary

### Introduction and Background

- 1.1 A review of the WMCA’s budgetary control system was carried out by Internal Audit as part of the annual Internal Audit Plan 2023/24 approved by ARAC. The objective of the review was to seek assurance regarding the effectiveness of budgetary control within WMCA.
- 1.2 All the WMCA’s key financial systems are considered to have a potential effect on the annual accounts. Therefore, this audit reviews is undertaken on an annual basis. The controls tested as part of this review are deemed as core controls.
- 1.3 The last review of budgetary control was completed on January 2023. The opinion was Substantial 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 adequate controls are in place for the purpose of budgetary control and are operated in accordance with the Combined Authority’s Financial Regulations and Contract Procedure Rules.
System Risks:	<p>The following system risks were identified:</p> <ul style="list-style-type: none"> <li>• There is a risk of running overbudget where there is a lack of budgetary control, leading to financial loss and reputational damage.</li> <li>• There is a risk of financial loss and damage if the budget is not prepared in accordance with standard guidance and the budget timetable.</li> <li>• Where there is a lack of budgetary control there is a risk of the authority not achieving its goals and objectives, leading to reputational damage.</li> </ul>
Limitation of Scope	The review did not cover capital budgets

## 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 **Substantial** 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.	<b>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.</b>

## Key issues identified

We did not identify any key issues during the review. However it was noted that the audited accounts for 2022/23 had not yet been published as at the time of the review, although a presentation was made by Grant Thornton to the Audit Committee on the 4<sup>th</sup> December 2023 highlighting issues, along with hopes for the audit process for the year ending 31 March 2024 to progress at a faster pace, to meet the deadline of 30<sup>th</sup> September 2024. Therefore, no recommendation has been raised.

## 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:

- There is comprehensive guidance and templates issued to members of staff involved in budget preparation, and a timetable with key dates for completion.
- Our testing confirmed that the key dates for the approval of the draft budget and final budget at the WMCA Board were met prior to the financial year.
- Our testing confirmed that the figures in the approved budget reconciled to financial records with no discrepancies noted.
- There is appropriate financial monitoring and reporting undertaken. As part of the review work was undertaken to confirm that these reports were presented to boards and contained sufficient and accurate information.
- Cost centres are allocated to responsible budget managers.
- Where underspends occurred in the testing undertaken, appropriate remedial action was carried out.

## Acknowledgement

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

## 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	09 January 2024
Exit meeting	n/a
Final issued	15 January 2024
ARAC reporting	30 January 2024





# West Midlands Combined Authority

## Internal Audit Report:

# *“Key Financial Systems – General Ledger”*

**Report Date:** 15 January 2024

**Report Distribution:** Anne Bull, Chief Accountant Finance  
Louise Cowen, Head of Financial Management  
Linda Horne, Executive Director, Finance and Business Hub

## 1. Executive summary

### Introduction and Background

- 1.1 A review of the WMCA’s general ledger was carried out by Internal Audit as part of the annual Internal Audit Plan 2023/24 approved by ARAC. The objective of the review was to seek assurance regarding the effectiveness of the general ledger within WMCA.
- 1.2 All the WMCA’s key financial systems are considered to have a potential effect on the annual accounts. Therefore, this audit review is undertaken on an annual basis. The controls tested as part of this review are deemed as core controls.
- 1.3 The last review of the general ledger was completed on January 2023. The opinion was Substantial 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 adequate controls are in place for the purpose of the general ledger and are operated in accordance with the Combined Authority’s Financial Regulations and Contract Procedure Rules.
System Risks:	<p>The following system risks were identified:</p> <ul style="list-style-type: none"> <li>• Where there are errors in recording and updating the general ledger there is a risk of accounts not being properly classified leading to reputational damage.</li> <li>• Where there is unauthorised access to the general ledger there is a risk of fraud leading to financial loss.</li> <li>• Where there are inadequate controls in place there is a potential loss of data leading to financial loss and reputational damage.</li> </ul>
Limitation of Scope	There were no limitations in scope.

## 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 **Substantial** 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.	<b>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.</b>

## Key issues identified

We did not identify any key issues during the review.

## 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:

- Control accounts had been reconciled over the period examined and were update to date as of January 2024.
- Ticketing control accounts were reconciled on a regular basis.
- Responsibility for reconciliation and review of the bank statements to the General Ledger had been appropriately assigned and testing confirmed that these processes were being undertaken.
- Responsibility for reconciliation and review of the validation error codes had been appropriately assigned and testing confirmed that these processes were being undertaken.
- An additional level of assurance was provided from a monthly report on the level of overall balances and the explanation of movements provided for the required reconciliations.
- Changes to cost centres / account codes are appropriately authorised.

- Opening balances for 2023/24 had been correctly input into Business World and were in accordance with closing balances for 2022/23.
- Journals were authorised in accordance with the scheme of delegation and access controls and are processed on a timely 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.

### 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	10 January 2024
Exit meeting	n/a
Final issued	15 January 2024
ARAC reporting	30 January 2024

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# West Midlands Combined Authority

## Final Internal Audit Report: Key Financial Systems: Payroll

2023-2024

**Report Date:** 11 January 2024

**Report Distribution:** Kate Ketteringham – Group Payroll and Payments Manager

Laurence Adams – Head of HR

Linda Horne – Executive Director, Finance and Business Hub

## 1. Executive summary

### Introduction

An audit of the payroll system was undertaken as part of the approved internal audit plan for 2023/24. The purpose of the review was to provide independent assurance regarding the effectiveness of the system established for the administration of the WMCA payroll. As a key financial system, payroll is reviewed annually. The last review was completed in March 2023. The opinion was satisfactory. As part of this review, we also undertook a follow-up of the implementation of the agreed action points from the 2022/23 audit review which was issued on 9 March 2023.

### 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 ascertain the adequacy of controls in place for the administration of the organisation's payroll systems and the degree of compliance with the Combined Authority's Financial Regulations and Constitution.
Potential Risks:	<p>The following system risks were identified in relation to the organisation's payroll:</p> <ul style="list-style-type: none"> <li>• Payroll payments may not reflect the correct entitlements of permanent staff, or those joining or leaving the authority.</li> <li>• The operational and financial details of the payroll may not be reconciled to confirm the accuracy of financial and employee records, statutory and other deductions, and the payments made from the WMCA bank accounts.</li> <li>• Undetected errors or fraud may occur if, due to the lack of adequate controls, payroll or other staff can make unauthorised entries or deletions to records.</li> <li>• Budget holders may not achieve their operational or financial objectives because they are not provided with the information necessary to check and manage their payroll costs.</li> <li>• Staff may experience hardship if there is an underpayment of their salaries. If overpayments are made, the Authority may suffer financial loss, or have difficulty recovering the funds from staff.</li> <li>• Statutory, pension and other deductions may not be remitted to the relevant body on a complete, accurate and timely basis.</li> </ul>
Scope:	<ul style="list-style-type: none"> <li>• Starters / leavers / payroll amendments are authorised.</li> <li>• Payroll runs are authorised and reconciled.</li> <li>• Adequate segregation of duties.</li> <li>• Adequate management information is shared with budget holders monthly.</li> <li>• Overtime payments are appropriately authorised and correctly calculated.</li> <li>• Payments to third parties are adequately controlled / managed.</li> </ul>



Limitations to the scope of our audit:	<p>This review will focus on evaluating the controls of the Business World payroll system and testing the areas detailed in the above scope. Testing will cover the period from 1 April to 30 November 2023.</p> <p>The review will not cover third-party and company payrolls.</p>
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### Overall conclusion

Our audit provides **Satisfactory** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

No Assurance	Limited	Satisfactory	Substantial
<p>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.</p>	<p>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.</p>	<p><b>There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</b></p>	<p>A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.</p>

### Key issues identified

We rate each issue identified based on the following:

<p><b>Red</b> Action is imperative to ensure that the objectives for the area under review are met</p>	<p><b>Amber</b> Action is required to avoid exposure to significant risks in achieving objectives</p>	<p><b>Green</b> Action is advised to enhance risk control or operational efficiency</p>
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We have identified three **amber** issues where improvements could be made, arising from the following:

- The Payroll Balance report is a primary control on the amounts posted from the payroll system to the general ledger. For one month in our sample of three months, the report did not bear evidence of independent review.
- Payments to third parties are detailed on payment instructions which are required to be signed by the preparer and countersigned as checked by prior to payment. 3 of the 8 requisitions prepared for November 2023 had not been independently countersigned.
- The Payroll Tracker is a spreadsheet maintained by HR: they list all payroll events on this document and it serves as an independent check on the information on BusinessWorld. From our sample of 10 starters, we noted that one employee’s details had been omitted from the tracker.

In addition, we have raised one issue classified as **green** which is detailed in section two of this report.

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

### Examples of good practice identified

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

- Details of salary and leaving dates were correctly recorded on the trackers and BW for leavers. We confirmed that payroll had correctly calculated the salary and outstanding holiday pay for leavers. Due to the complexity of the calculations, it is envisaged that these amounts will continue to be manually calculated for the time being.
- The pay award for 2023 had been correctly applied to employees based on their full- or part-time employment status.
- Payroll staff carry out a series of checks on error reports produced by the BW system and the system of checks and error reporting ensures that the payroll is agreed and reconciled. This preventing any potential errors to be identified on a timely basis.
- The allocation of system roles and access rights ensures that only members of the Payroll Team have access to payroll system.
- All staff roles are allocated to a cost centre on BW, and this cost centre determines where the costs will be posted. Changes to the cost centre are initiated by HR, in response to a role change of the employee.
- All employees overtime payments could be traced to their overtime document and in all cases, these had been formally approved by their manager. We confirmed that the correct hourly rates and overtime multiples had been used.
- Amounts due to third parties are identified from all BW payroll reports in the first instance, and where necessary the Payroll Team aggregates amounts from all the payrolls that they control. Records and reconciliations of these amounts are prepared each month and amounts payable are subject to independent review by senior management before payment.

### Acknowledgement

Members of the Payroll Team 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. Payroll Balance Report

**Findings:** The Payroll Balance report is a primary control mechanism for ensuring that the payroll is reconciled and the gross and net amounts to be posted to the financial ledgers are in agreement. This document should be prepared and signed by a Payroll Officer and countersigned by the Group Payroll and Pensions Manager. We noted that, due to an administrative oversight, the September 2023 Payroll Balance Report had not been countersigned by the Group Payroll and Pensions Manager.

We also noted that the Balance report had spaces for the signatures by the Head of FM and the Lead Planning Accountant, and these appeared to be redundant and not in use. Instead of this signature, we noted that the Head of FM and a member of the Lead Planning Accountants team are sent an email asking them to check the payroll balances and reply should they believe there are any discrepancies.

**Implications:** If the check of the Payroll Balance Report is not certified and signed as evidence of a check, there is a risk that the control is ineffective, and errors or anomalies in the balances and reconciliations may not be identified or corrected.

**Recommendations:** The payroll balance report should be checked and independently countersigned each month prior to any payments being made to third parties.

The need for the additional signatories on the sheet should be reviewed, and the sheet should be amended or updated as necessary.

**Agreed Actions:** All payroll balance reports are checked and countersigned by the Group Payroll manager each month for every payroll, unfortunately in this scenario the countersignature had been omitted. Agree to ensure the countersignature is present and will look to update the template to remove data no longer required.

**Responsible Officer:**  
Group Payroll and Payments Manager

**Target Date:**  
April 2024

### 2. Payment instructions for third party payments

**Findings:** Each month, a payment instruction is prepared from the information in the BW payroll transactions and balances reports. A cheque/BACS requisition report is produced for each payment and these reports should be signed by the preparer and checked independently and signed in evidence of this review. We reviewed the 8 payment requisitions prepared for the November payroll and noted that 3 of them had been signed as prepared and checked by the same signatory.

We note that the spreadsheet detailing all the November payment requisitions was sent to the Group Payroll and Payments Manager and Head of Financial Management and their formal approval for the payments was obtained.

**Implications:** There is a risk that incorrect or fraudulent balances or transactions may not be identified if the payment requisition reports for third party payments are not independently checked prior to payment.

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

**Recommendations:** Procedures should be strengthened to ensure that the cheque/BACS requisition report produced for each third-party payment is independently checked and signed in evidence of this check.

**Agreed Actions:** Independent checks are taken by the Group Payroll Manager of all third payments produced, this is supported and verified via email. Will look to remove the check box on the form on the cheque/BACS requisition as this is not required as the email is the verification.

**Responsible Officer:**  
**Group Payroll and Payments Manager**

**Target Date:**  
**April 2024**

### 3. Payroll Tracker

**Findings:** The payroll tracker is completed by HR as a log of all the HR events and actions that have an impact on payroll and would normally include all details of starters and leavers. The starters serve as a control and check that the information on Business World is complete and accurate. In our test of 10 starters, we noted that the salary details of one individual was not recorded on the Tracker. We were informed that HR had missed the employee off the tracker and the record had been made by the Payroll Team.

**Implications:** If the payroll tracker is not completely updated there is a risk that the Payroll Team may not have a complete and accurate independent source of information to corroborate the entries on BW.

**Recommendations:** A timely and accurate log of all omissions or errors should be made and brought to the attention of the head of HR ASAP. All errors and omissions should be investigated and signed off by the head of HR.

**Agreed Actions:** In cases where there is an omission from the HR tracker, it is immediately brought to the attention of the HR Service Centre, who will confirm action/correct data prior to the payroll being processed. The Head of HR does not deal with day-to-day transactional entries for HR; therefore, feel the HR Operations Manager would be more appropriate to investigate/confirm if required. The HR Operations Manager is included in the HR Service Centre email address where all queries are raised. Also monthly follow up meetings are held with the HR Operations Manager, HR Service Centre Manager, Group Payroll Manager, Payroll Officer and HR administrators to review any previous month omissions/errors to ensure understanding and to prevent similar future omissions/errors.

**Responsible Officer:**  
**Group Payroll and Payments Manager**

**Target Date:**  
**April 2024**

Action is advised to enhance risk control or operational efficiency  
Green

#### 4. Payroll System Access Profiles

**Findings:** User profiles determined the systems that officers can access within BW. To ensure adequate segregation of duties and to protect the integrity of the payroll and employee records, the HR and Payroll systems are separate, and access is granted to those staff who need to access the systems as part of their duties. Payroll officers have been granted profiles which are restricted to the payroll systems only. The Group Payroll and Pensions Manager has been granted a profile which enables access to the HR and Payroll systems. We understand that this was initially granted during the systems implementation process, and it is intended that an appropriate "Payroll Manager" profile will be created in January 2024.

**Implications:** There is a risk that the authority may suffer financial loss if employee data and payments are created or amended by staff who have access to both the Payroll and HR systems.

**Recommendations:** The role of Payroll Manager should be created in accordance with the given timeline of January 2024.

**Agreed Actions:** Agreed

**Responsible Officer:**  
ERP Systems and Analytics Mgr

**Target Date:**  
January 2024

### Limitations inherent to the internal auditor's work

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#### 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	2 January 2024
Revised draft issued	9 January 2024
Final issued	11 Januray 2024
ARAC meeting date	30 January 2024

## Appendix 1 Follow up of March 2023 Audit

**Follow-up of previous payroll report (March 2023)**

**Findings:** As part of our review, we checked the status of recommendations made in the previous report. Where the recommendation was checked by audit testing as part of this year's fieldwork, we have made new recommendations as appropriate in the preceding sections. All outstanding recommendations refer to items which were initially classified as Green.

**Implications:** If the recommendations are not implemented as envisaged in the original March 2023 Payroll Report, there is a possibility that the risks identified may not be managed.

<b>Recommendation (March 2023)</b>	<b>Status</b>
<b>4.ii (ii) Segregation of Duties - Green</b> Systems access reports should be available from the system to allow an annual review of access in order to ensure access roles have been allocated correctly and revoked for officers who have left the organisation or changed role.	This is still on the radar for a future development. As mentioned, Business World is an ERP system which expanded to include HR and Payroll from April 2022, therefore developments within the system build are still on going.
<b>6. Monitoring / exception reports not available - Green</b> Additional training should be provided to the Group Payroll and Pensions Manager on writing reports to allow them to produce any reports that they require.	A training programme has been devised, and dates for the participation of the Payroll Team are yet to be finalised.

**Agreed Actions:**

<b>Recommendation</b>	<b>Further Management Action</b>
<b>4.ii (ii) Segregation of Duties</b>	Access reports are available to view system access: Implemented. The requirement to end access when employment ceases is still manual, however is still on the radar for future development to end access automatically when employment ceases.
<b>Responsible Officer:</b> <b>ERP Systems and Analytics Manager</b>	<b>Target Date:</b> Not scheduled
<b>6. Monitoring / exception reports not available - Green</b>	In house training has been undertaken. External training date to be agreed in coming months dependent on workload.
<b>Responsible Officer:</b> <b>Group Payroll and Payments Manager</b> <b>/ERP Systems and Analytics Manager</b>	<b>Target Date:</b> June 2024

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# West Midlands Combined Authority

## Internal Audit Report:

# Treasury Management – 2023

**Report Date:** 16 January 2024

**Report Distribution:** Mark Finnegan – Lead Treasury Accountant  
Louise Cowen – Head of Financial Management  
Linda Horne – Executive Director, Finance and Business Hub

## 1. Executive summary

### Introduction and Background

- 1.1 A review of the WMCA Treasury Management operations was included in the Annual Internal Audit Plan 2023/24 approved by the Audit, Risk and Assurance Committee (ARAC). The purpose of the review was to conduct a high-level appraisal of the Treasury Management System established within the WMCA to provide independent assurance regarding the efficiency and the effectiveness of the Treasury Management process.
- 1.2 All key financial systems are required to be reviewed annually. The Treasury Management System (TMS) was last reviewed as part of the 2022/23 Internal Audit Plan. The opinion was “Substantial”. Hence this review is a high-level review which focussed only on the key controls in order to provide assurance that controls remain effective and are operating satisfactorily. The review also evaluated the new “Treasury Live System” following the recent concerns reported to Statutory Officers, in September 2023 in regard to the control environment within the “Treasury Live System” relating to Forward Dealt Loans
- 1.3 To this effect additional tests were undertaken to ascertain whether the issues reported to Statutory Officers had been effectively addressed.
- 1.4 Details of the outcome of the review are set out below.

### 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:	<ol style="list-style-type: none"> <li>1. Seek to gain assurance that the Treasury Management function is operated in accordance with the Combined Authority’s Financial Regulations and Contract Procedure Rules, in compliance with the WMCA Constitution and Treasury Management Strategy (TMS).</li> <li>2. To evaluate and assess the controls in place for the day-to-day operation of the Treasury Management function to gain assurance that these controls continue to operate effectively and are fit for purpose.</li> <li>3. To evaluate if the control measures implemented in response to the reported concerns are satisfactory and the Treasury Live System used for treasury management transactions remains fit for purpose.</li> </ol>
Potential Risks:	<p>The following system risks were identified:</p> <ul style="list-style-type: none"> <li>• Treasury management activities are not managed in accordance with the Treasury Management Strategy, the Constitution and the CIPFA Code of Practice.</li> <li>• Treasury Management roles and responsibilities are not clearly defined.</li> </ul>

	<ul style="list-style-type: none"><li>• Not all transactions are appropriately approved and authorised which may lead to unauthorised transactions taking place.</li><li>• Weak or insufficient separation of duties may lead to errors and unauthorised transactions.</li><li>• Insufficient evidence for transactions in place and transactions are not fully recorded and accounted for.</li><li>• Control accounts are not prepared and regularly reconciled.</li><li>• Regular monitoring of activities and reporting arrangements are not in place.</li></ul>
Scope:	In line with the agreed Terms of Reference the scope of this audit covers the controls and processes in place within the Treasury Management Systems from April 2023 to September 2023 regarding the day to day operation but extended as necessary to cover the remedial activities relating to the concerns recently reported to Statutory Officers.
Limitations to the scope of our audit:	<p>The review was limited to transactions covering the periods from April 2023 to September 2023 and was limited in scope due to the frequency of reviews and the high level of assurance obtained at the last review reported in February 2023.</p> <p>Audit tests were carried out on a selection of random samples of transactions covering the relevant period to obtain necessary assurance to ascertain the effectiveness of the existing system.</p>

## Overall conclusion

Our conclusion is that the framework is strong, and compliance is satisfactory. Our overall conclusion based on Internal Audit Standard Assurance Matrix, is that the system is “satisfactory.” 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.	<b>There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</b>	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 below, based on the following:

<b>Red</b> Action is imperative to ensure that the objectives for the area under review are met	<b>Amber</b> Action is required to avoid exposure to significant risks in achieving objectives	<b>Green</b> Action is advised to enhance risk control or operational efficiency
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We have identified one **Amber** issue and one **Green** issue (See section below) where improvements could be made, arising from the issues which have been identified.

## Forward Dealt Loans.

Internal Audit reviewed the actions taken by service management to address the concerns reported to Statutory Officers in September 2023 to ascertain whether appropriate remedial actions had been taken to address the issues.

In context, the concerns reported to Statutory Officers indicated that there had been a number of circumstances (five cases to be precise) where the operational loan boundary - set to maintain an even spread of investments across counterparties - had been exceeded due to a system failure. Although no approved treasury limits were breached, the failure relates to a component within the “Treasury Live” system which had not been fully activated and not been fully “Stress Tested” to determine fitness for purpose. All the counterparties involved were local authorities with low-risk ratings. However, as the issue relating to the operational boundary had already been dealt with by statutory officers, the main audit concern was therefore to determine what appropriate remedial action had been undertaken to address the identified issues and to facilitate a live “Stress Test” of the system in order to provide senior

management with an appropriate level of assurance regarding the current position and “risk potential” faced by the system.

The “Treasury Live” system was developed for Public Sector Treasury Management and therefore is a dedicated or bespoke programme for local authorities across the UK which was developed in compliance with CIPFA Standards. Since the incidence was reported to Statutory Officers service management had taken appropriate steps to request a “fix” from the developers of the system to prevent future incidents occurring.

To address the above Internal Audit engaged with the WMCA Treasury Lead Accountant to carry out a “Walk through Test” on the updated system. The test demonstrated that the “fix” had successfully been activated to prevent any accidental or unconscious over-allocation beyond the limits set within the WMCA’s Treasury Management Strategy. However, the system could still allow the limits to be exceeded manually after first alerting the inputter that they are about to exceed the set limit. This gives the inputter an opportunity to “reconsider”. Hence the inputter has the option to override the system. But this could only happen intentionally or consciously.

The system is however, underpinned by three key additional controls.

- Division of duties – Approver and Inputter are separate individuals.
- Bank approval – The bank approver may prevent any detected counterparty over-allocations that are in excess of the pre-set limits.
- Monthly reconciliations – Monthly reconciliations of cash holding and cash movement are sent to a senior manager for information and return confirmation of completeness. However, these are not “Certified” by the reviewing manager. Hence this aspect could be further strengthened to enhance internal control.

### **The Archiving Process Within MS Teams**

- Evidence of transactions and approvals are maintained within MS ‘Bank’ Channels within teams, however the security and retention periods for this data source could not be obtained during this review.
- The storage of information on MS Teams may not be suitable in the long term as storage capacity may be exhausted and data may become inaccessible and lost.
- It may be more appropriate to hold this information offline in an archive whether on SharePoint or on a separate drive on the network where controlled access to the data can be controlled and facilitated. We therefore would recommend a review of data storage and access to archived information.

Appropriate recommendations to address the issues raised above are set out below on section 2 of this report.

### **Examples of good practice identified.**

We identified the following examples of good practice within the system and in the management of risk.

- There is a Treasury Management Strategy which complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.
- The Treasury Management strategy is reviewed and approved annually by ARAC.

- There is division of responsibility regarding the administration of key functions within the TM team. Investment decisions are separated from inputting. Hence creating appropriate level of control against risk of error or fraud.
- Following the operational boundary control limit issue on the “Treasury Live” system which was reported to Statutory Officers, the system has been upgraded to flag up any attempted input in excess of the TM strategy; this allows the inputter to pause for reflection prior to completing the operation.
- In addition to the above, new written procedures have been drawn up to strengthen controls in order to minimise identified risks.
- Additionally, there is a further line of control within WMCA’s banking software prior to the release of funds when investments decisions are made. Bank approvers can reject any transactions over the counterparty limits set out in the investment strategy and monthly reconciliations are sent to senior management.
- There is a regular reporting routine in place for month end reporting of cash flow movements and periodical reporting to ARAC via the Treasury Management Mid-Year and Outturn reports.

### Acknowledgement

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

## 2. Findings and recommendations

Action is required to avoid exposures to significant risks in achieving objectives.

Amber

### Forward Dealt Loans.

#### Findings:

Although the issues relating to the “Treasury Live” system failure reported to Statutory Officers have been addressed; It is still possible to override the system manually. While it is noted that the monthly reconciliations which are sent to senior management offers a level of transparency which provides additional security and safeguards, this may not be sufficient to address manageable residual risks as the reports to management are not certified. To this effect the existing level of senior management review may need strengthening.

In view of the above, it is recommended that the reconciliation sheet includes a simple statement saying, “Certified by”, followed by the designation and signature of a responsible member of the senior management team who would take responsibility for approvals exceeding loan limits as well as confirmation of the accuracy of the reconciliation outcomes.

#### Implications:

The updated system and additional controls implemented to address the system error may not be sufficient to address the possibility of further errors of the counterparty investment limits set by the TM strategy. Current arrangements may not be sufficiently transparent and lack sufficient evidence of senior management ownership. Therefore, additional measures may be required to plug any existing gaps.

#### Recommendations:

1. The monthly investment reconciliations should be certified by an appropriate member of the senior management team and any identified breaches of the Treasury Management Strategy should immediately be reported to Statutory Officers.
2. All future changes made to the “Treasury Live” system, or any relevant TM financial application should undergo a “stress test” which should be signed off by senior management. The tests should incorporate identified risks to ensure their fitness for purpose before full implementation and senior management sign off.

#### Agreed Actions/Management Comments:

1. Update of monthly reconciliation format to include certification of counterparty exposure compliance to be introduced.
2. Treasury Live system “stress tests” to be documented and thereafter signed off by senior management following each update to operating parameters and/or – as a minimum - following the approval of the Treasury Management Strategy annually.

Responsible Officer:

Target Date:

<b>Lead Treasury Accountant</b>	<ol style="list-style-type: none"> <li>1. January 2024</li> <li>2. March 2024 (or earlier if operating parameter changes altered prior to approval of 2024/24 TMS)</li> </ol>
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**Action is advised to enhance the archiving and access to records within MS Team Green**

### **The Archiving process within MS Teams.**

#### **Findings:**

Evidence of transactions and approvals are maintained on 'Bank' Channels within Microsoft teams. However the security and retention periods for this data source could not be obtained during this review.

#### **Implications:**

Approval records are not held alongside the associated transaction resulting in difficulties in reconciling transactions.  
The period for retaining data within the MS Teams system may not reflect the required retention periods set for accounting purposes.  
The data may not be securely held offline and there may be limited access to data in time if storage capacity is reached within MS Teams.

#### **Recommendations:**

Consideration should be given to the effectiveness of MS Teams for the recording and retention of financial approvals and confirmed by Digital and Data team.

#### **Agreed Actions/Management Comments:**

Lead Treasury Accountant (in collaboration with peers from other impacted teams) to liaise with Digital and Data team to confirm long term viability of MS Teams for recording and retention of financial approvals and scope alternate archiving systems if required.

**Responsible Officer:**  
**Lead Treasury Accountant**

**Target Date:**  
March 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	13 November 2023
Exit meeting	13 December 2023
Final issued	16 January 2024
ARAC meeting date	30 January 2024

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2023/24 Internal Audit plan

Audit deliverability – December 2023

Audit	Strategic Risk Current risk status (if applicable)	Current status
<b>Health &amp; Safety</b> To seek assurance that a robust health and safety management system is in operation for the WMCA that aligns to ISO 45001 to effectively manage health and safety risks.	SRR – R018 Failure of the WMCA to implement and embed suitable and sufficient Health and Safety arrangements.	Audit completed November 2023.  Satisfactory audit rating issued.
<b>Contract Management</b> A review of contract management processes applied to ensure the effective management of suppliers, ensuring the service or supply of goods meets expectations, with set procedures followed in the management of poor performance or non-compliance of contractual obligations.	SRR – R008 / R024 Commerciality / Inflation & global supply chain pressures  Current risk rating - red	Audit has been reallocated due to resource implications.  Audit currently in progress for completion in Q4.
<b>Gifts and hospitality declarations</b> A review of the application of the Declaring Hospitality and Gifts policy ensuring associated procedures are followed as set out in the Constitution.	SRR - R010 Failure to adopt and embed adequate formal governance arrangements.	Audit completed September 2023.  Limited audit rating issued.
<b>Business Continuity</b> A review of the business continuity arrangements in place within WMCA to ensure it reflects and can respond to the business needs of an agile workforce in the event of disruption to ICT services and/or the working environment.	SRR-R012 WMCA Resilience  Current risk rating – amber	Audit was carried forward from the 22/23 internal audit plan.  Audit to be progressed in Q4
<b>Decision making</b> A review of the decision-making arrangements in place throughout WMCA assessing compliance with legislative and constitutional requirements.	SRR - R010 Failure to adopt and embed adequate formal governance arrangements.  Current risk rating - amber	A wholesale review of decision-making arrangements has been taking place throughout 23/24 to respond to immediate requirements and in preparation for the requirements of the Single Settlement from April '25 onwards.

Colour coding:

Green – Complete

Yellow – In progress

Blue – allocated for delivery in Q4

Grey – to be deferred or removed

		It is proposed this audit be deferred until all planned changes have been implemented.
<b>Key Financial Systems</b> To provide assurance that the key financial processes are operating effectively, including: <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Accounts payable</li> <li>• Accounts receivable</li> <li>• General ledger</li> <li>• Budgetary control</li> <li>• Treasury Management</li> </ul>	n/a	Audits completed in Q3, A/C payable and A/C receivable remain in progress.  Satisfactory and Substantial audit ratings applied (see Internal Audit update report for further details)
<b>National Fraud Initiative</b> A review of WMCA's processes to ensure it meet all obligations of the 22/23 NFI exercise including its response to identified data matches.	SRR – R010 Failure to adopt and embed adequate formal governance arrangements.  Current risk rating - amber	Audit to be progressed in Q4.
<b>Activity register/project pipeline</b> To seek assurance that robust processes are in place to demonstrate an effective organisational Project Pipeline is in place from inception and identification of funding through to delivery, to support the management of financial and business planning.	SRR -R009 Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments  Current risk rating - risk closed	The activity register is currently under review by the responsible department with an aim of improving digital access and a consistent approach to data capture.  Completing an audit whilst this work is in progress will add no value and will therefore be deferred to the 24/25 audit plan.
<b>Monitoring and Evaluation</b> To seek assurance that robust monitoring and evaluation arrangements have been established supporting oversight of the Investment Programme project and programme deliverables.	SRR-R019 Investment Programme Delivery  Current risk rating - amber	Audit carried forward from the 22/23 Internal audit plan.  Audit in progress for completion in Q4.
<b>UK shared prosperity Fund</b> A review of compliance with the Government Functional Standard: 015 Grants as set out and	n/a	Audit was identified to support requirements of the funding conditions.

Colour coding:

Green – Complete

Yellow – In progress

Blue – allocated for delivery in Q4

Grey – to be deferred or removed

required to meet the conditions for delivery of the UK Shared Prosperity Fund.		To be progressed in Q4.
<b>Adult Education Budget</b> To seek assurance robust procurement arrangements are in place to ensure the procurement of quality training providers in the delivery of Adult Education services.	n/a	Audit in progress for completion in Q4.
<b>Deeper Devolution Deal</b> To assess elements of the DDD programme to confirm it's compliance with the Single Assurance Framework's (SAF) initiation and development stages.	SRR -R009 Project / Programme Appraisal & Assurance.  Current risk rating - risk closed	The status and planning are currently not sufficiently formed to enable an effective audit to be completed. It is proposed this be deferred to 24/25 and considered alongside a potential audit on the preparedness of the Single Settlement, due in April 2025.
<b>Energy Efficiency retrofit</b> To seek assurance WMCA's retrofit programme is meeting the standards of the government's Home Energy Performance Retrofit programme.	SRR-R001 Failure to deliver the opportunities and benefits of the Investment Programme  Current risk rating - red	To be progressed in Q4
<b>Asset Acquisition and Disposal framework</b> To review the structure of, and operational compliance with the Corporate Asset Acquisition and Disposal Framework.	n/a	As reported to ARAC in September 2023, no asset acquisitions or disposals have been undertaken since the introduction of this framework, and as a result there is no data for Internal Audit to review or provide an opinion on at this time.  The audit is to be removed from the plan and reconsidered as part of future audit planning.
<b>Active Travel Fund</b> To seek assurance of compliance of the Single Assurance Framework (SAF) for the Active Travel Fund and assess the agility of SAF to accommodate and support smaller, time limited funding projects and programmes.	SRR- 009 Project / Programme Appraisal & Assurance  Current risk rating – risk closed	A healthcheck of the Active Travel fund was conducted by the Programme Assurance and Appraisal team in July '23 with a number of improvement recommendations having been identified. A follow-up of delivery of the recommendations is planned for January '24 and is this is considered adequate review with no further actions required by Internal Audit.  It is proposed this audit be removed from the plan.

Colour coding:

Green – Complete

Yellow – In progress

Blue – allocated for delivery in Q4

Grey – to be deferred or removed

<b>Swift</b> A review to seek assurance effective procedures are in place to provide customers with a quality service in the management of Swift accounts including account opening, change requests and account closures.	n/a	Audit to be progressed in Q4.
<b>Operator Charging</b> A review to seek assurance income obtained from Departure Charging and Information at Bus Stops and Shelters (IBSS) is effectively and proportionately managed in line with associated policies and procedures.	SRR-R007 Post pandemic sustainability of public transport network  Current risk rating - red	Audit to be progressed in Q4.

Colour coding:

Green – Complete

Yellow – In progress

Blue – allocated for delivery in Q4

Grey – to be deferred or removed

**AUDIT, RISK AND ASSURANCE COMMITTEE**

<b>COMMITTEE MEETING</b>		<b>REPORT AND AUTHOR</b>	<b>AGENDA BRIEFING MEETING</b>	
<i>Date of Meeting</i>	<i>Date Final Reports to be submitted to Governance Services</i>		<i>Date of Meeting</i>	<i>Draft reports for send out</i>
<b>11 March 2024</b>	<b>29 February</b>	<ul style="list-style-type: none"> <li>• Internal Audit Report (Helen Edwards)</li> <li>• Assurance Performance Report (Joti Sharma)</li> <li>• Annual Health &amp; Safety Report (Ben Gittings)</li> <li>• Annual Governance Statement (Helen Edwards)</li> <li>• Update on WMCA's Arm's Length Companies (Helen Edwards)</li> <li>• Transport Programme Capital Governance Review (TfWM) Findings (Helen Edwards)</li> </ul>	<b>23 February</b>	<b>20 February</b>
<b>Items for future meetings</b>		<ul style="list-style-type: none"> <li>• Annual Report on Equalities (Linda Horne)</li> <li>• Draft Internal Audit Plan 2024/25 (Helen Edwards)</li> </ul>		

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