

Auditor's Annual Report on the West Midlands Combined Authority

2021/22

6 June 2023



Contents

Section	Page
Executive summary	3
22/23 Developments	5
Opinion on the financial statements and use of auditor's powers	6
Securing economy, efficiency and effectiveness in the Authority's use of resources	7
Financial sustainability	8
Governance	10
Improving economy, efficiency and effectiveness	13
Follow-up of previous recommendations	16
Opinion on the financial statements	17
Appendices	
Appendix A – Responsibilities of the Authority	19
Appendix B – Risks of significant weaknesses, our procedures and findings	20
Appendix C – An explanatory note on recommendations	21
Appendix D – Sources of evidence	22



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

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



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

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Executive summary



Value for money arrangements and recommendations

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

Auditors are required to report their commentary on the Authority's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below. We stress that the focus of this report is required to be 2021-22. We recognise that this report has been delayed and the 2022-23 financial year has just finished. We will report separately upon 2022-23 later in 2023 but on page 5 we have sought to provide a high level assessment and bridge to that future work.

The Commonwealth Games loomed large over the work of the Authority in the 2021-22 financial year (and into 2022-23). With the eyes of the world going to be on Birmingham the need for the seamless working of the transport network during the 2-week Games became a key focus for the Authority.

The preparation for the Games played out in a period of significant macroeconomic volatility with the Authority still working hard in its negotiations and bids for Devolution Deal funding. Having cleared its initial 5-Year Gateway review the Authority is now well placed to move forward, though it must do so in even more financially stringent times and the need for prudent financial management has never been more required. The ability of the Authority to be able to deliver its ambitious programme is heavily contingent on securing significant further investment through the new 'Trailblazer' devolution deal and they are quite understandably putting all their efforts into securing this funding.

The Authority is well run financially with prudent forecasting and management of reserves underpinned by a strong governance structure. These attributes will be ever more important as the Authority moves forward.

Criteria	Risk assessment at planning	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified.	No significant weaknesses in arrangements identified.	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendations made.	No significant weaknesses in arrangements identified but one improvement recommendation has been rolled forward from 2020-21	↑
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified.	No significant weaknesses in arrangements identified but one improvement recommendation has been made	↓

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

Executive summary



Financial sustainability

The Authority continues to operate in a financially and operationally challenging environment. Their financial planning both in the short and medium term is on a sound footing with prudent assumptions being built into both. The signs are that the challenges will continue in the medium term so the need for the structured and disciplined approach to managing finances and reserves, which the Authority has demonstrated, will continue to be crucial. We note that the Authority is currently negotiating the new second phase 'Trailblazer' devolution deal in the context of a worsening economic outlook for the UK. They are also having to manage in a post COVID environment where key assumptions, such as the demand for transport services, are having to be revised. The Authority will need to continue to be alive to the medium term financial risks and should plan accordingly. We have not identified any significant weaknesses or improvement recommendations.



Governance

We did not identify any new risks of significant weakness in relation to Governance, and our detailed work in this area has confirmed the view we took in 2020/21 that adequate governance arrangements were in place. We noted that there is effective scrutiny of finances, performance and key decisions, carried out regularly in a structured and transparent way. This includes close monitoring of the issues around demand for transport services, working closely with partners. We note that Audit Risk and Assurance Committee (ARAC) has not been quorate on several occasions. We have made one recommendation for improvement in this area.



Improving economy, efficiency and effectiveness

We did not identify any new risks of significant weakness in relation to improving economy, efficiency and effectiveness, and as was the case for 2020/21 we are satisfied that arrangements to secure economy, efficiency and effectiveness continue to be adequate. As noted, the Authority has secured a second major phase of devolution funding which will enable it to continue to attract government investment into the region. In the medium term the Authority is well placed to continue to attract further investment, building on a good reputation for delivery, good partner relationships and proven governance structures. However, it faces an increasingly challenging environment with future government investment likely to be constrained and with devolution deals in other regions providing strong competition for resources. We note that the Authority has invested in its procurement team to further strengthen arrangements in this area and we have made one recommendation for improvement in this area.



2022/23 Developments

Our work on the VFM arrangements for 2021/22 concluded in December 2022. This section updates our previous work, and looks forward to our planned work as part of the 2022/23 audit. It therefore does not form part of our formal conclusions in respect of 2021/22

2023/24 Budget

In February 2023 the Authority set a balanced budget for 2023/24. The budget recognised the period of significant financial uncertainty that it was facing, highlighting the impact of high inflation, especially in relation to fuel and energy prices. Inflationary uplifts were included in the budget of 5% for pay, 7% for non-pay elements and a 60% uplift in relation to energy costs. Additional income was achieved through a 2% increase in the Transport Levy compared to 2022/23, which recognised the continuing risks and ongoing pressures within the Transport Network. In addition to this, an assumption was made that there would be continued subsidy of the West Midlands Metro operation.

[We do note that on 17 May 2023 the Transport Secretary confirmed national funding of £300 million to protect vital bus routes and improve services until 2025 alongside up to £200 million to continue capping single bus fares at £2 outside London until the end of October 2023 and then at £2.50 until 30 November 2024. The Authority will be working through the local impact of this additional support.]

The balanced budget position in 2023/24 recognises a further one year funding solution, with significant pressure on the budget in future years, ranging from £28.8m in 2024/25 to £49.7m by 2027/28. At the time of setting the budget, no assumptions were made about additional funding available from the Trailblazer Devolution Deal, although significant work was ongoing with Central Government to agree potential terms and conditions on this, as well as agreement of significant legacy funds following on from the success of the Commonwealth Games. The 2023/24 budget recognises the low level of general fund reserves. These sit at only 1.2% of the aggregate proposed 2023/24 Constituent Authority contributions but we also note that the Authority holds earmarked reserves that could be reviewed if risks to the financial sustainability of the Authority presented themselves.

While our risk assessment for the 2022/23 VFM audit will continue throughout the year, at this stage we haven't identified this as an area of significant weakness.

Commonwealth Games

Following the Commonwealth Games a legacy fund of £70m is to be provided to the Authority to ensure the region builds on the success. Conditions are being agreed, with the fund needing to be spent across the 2023/24 and 2024/25 financial years. This is a significant project, that will need to be delivered at pace to comply with the grant conditions. We will review the arrangements in place as part of our planned 2022/23 VFM audit.

Integration of Local Enterprise Partnerships (LEP)

From 1 April 2023, core funding for LEP's and Growth Hubs will transfer to the Authority to enable it to discharge the functions which had previously been provided through the LEP. Work remains ongoing to clarify future funding and delivery arrangements. We will review the arrangements in place as part of our planned 2022/23 VFM audit.

Deeper Devolution Deal

The Spring budget delivered on 15 March 2023 announced a further devolution deal for the Authority, the highlights of which include:

- A new central government departmental style budget arrangement, with a single pot of funding (a 'single settlement' agreement),
- Fiscal devolution, including retention of business rates for the next 10 years,
- Up to six levelling up zones, backed by 25 year business rate retention, to target investment and encourage jobs and regeneration,
- A housing deal worth up to £500 million to drive brownfield regeneration and greater flexibility to be able to deliver affordable housing, and
- Devolution of the bus service operators grant and a new partnership with Great British Railways to offer greater local oversight and control of public transport services.

Functions will generally be devolved through the Local Democracy, Economic Development and Construction Act 2009, and need to be accepted by WMCA under its constitution and local governance processes. With the greater powers the Government will require enhanced accountability. It has set out its expectations:

- the Authority will be held accountable through the Local Government Accountability Framework, English Devolution Accountability Framework and enhanced scrutiny measures, and
- the Mayor and WMCA will be expected to present to Parliamentary Select Committees as requested, in conjunction with Mayor's Question Time and quarterly engagement with West Midlands MPs.

The deal marks a significant shift in the way the Authority is financed and promises to provide greater financial certainty. We will review the arrangements that the Authority put in place to deliver the deal for the region.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have completed our initial audit of your financial statements, but await the resolution of a sector wide issue on pensions before finalising our audit report. Initial findings were reported to ARAC on 24 January 2023. Our findings are set out in further detail on page 17.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendations

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a report in the public interest.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply to the Court for a declaration.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a Judicial review.

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

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

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

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

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



Financial Sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on the Authority's arrangements in each of these three areas, is set out on pages 8 to 15. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Authority:

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

Financial pressures

Much like the prior year, 2021/22 has been challenging for the Authority from a financial planning perspective. Reporting has consistently outlined the risks to the budget, including those as a result of the external economic climate and the wider public sector funding challenges. Historically, the Authority has performed well, with a strong record of financial and budgetary management. This has continued throughout 2021/22.

The outturn position as at 31 March 2022 showed a surplus of £9.2m, mainly from within the transportation area of the budget. This relates to concession savings because of reduced service provision by operators, demonstrating continued reduced patronage as a result of the pandemic. Given the ongoing pressures on the transport network, this surplus has been transferred to specific transport reserves.

The authority's 2022/23 budget includes income of £343m. Of this the main constituent elements are:

- £117m for the Transport levy
- £142.7m for Adult Education
- £18.7m for the Commonwealth Games in summer 2022

In order to balance its budget for 2022/23 the Authority had to plan to use £3.6m of Reserves. It is expected that prudent use of reserves will become a major feature of medium term financial planning in the light of the pressures identified above. Clearly, in the current volatile macroeconomic landscape, it will be ever more necessary to maintain a vigilant review of the ongoing impact across expenditure lines.

There is a well established approach to identifying savings via the Innovations, Productivities and Efficiencies board, and this contributed £700k work of savings in the 2021/22 financial year. A £750k target has been set for 2022/23, with task and finish groups in place to look at specific areas.

In summary, the Authority has demonstrated via its financial planning that it is well aware and alive to all the prevailing pressures on its finances and is planning accordingly.

Funding Gaps

The Medium Term Financial Plan (MTFP) was considered as part of the budget setting process for 2022/23 in February 2022. This presented an expected gap of £45m by 2026/27.

Year	23/24 £m	24/25 £m	25/26 £m	26/27 £m
Deficit	23.1	33.7	44.7	45

In light of the significant pressures identified, the Authority committed to work with Constituent Authorities throughout the year to develop a longer term, sustainable budget plan. This was reported back to the board in July 2022, following discussion with the Mayor at Metropolitan leaders in May 2022. The report considered the funding gaps, and was presented with three different scenarios, a best case, worse case and a mid case.

Year	23/24 £m	24/25 £m	25/26 £m	26/27 £m
Best case scenario gap	21.7	36.8	45.3	46.5
Mid case scenario gap	24.7	42.1	50.5	51.6
Worst case scenario gap	54.7	72.1	80.5	81.6

Financial sustainability

In reality, moving forward the Authority is likely to struggle to meet the large future funding shortfalls as doing so is heavily dependent on the success of the new phases of devolution deals which the Authority is currently negotiating with the Government. Much work has gone in from the Authority to support these bids and negotiations. The Authority considers itself well placed to be able to succeed and indeed as part the Spring budget delivered on 15 March 2023 the government announced a further devolution deal for the Authority (see page 5).

In common with the whole of the sector, the current macroeconomic climate presents huge challenges to the financial sustainability of the project, particularly in relation to rising energy costs and inflationary pressures. The Authority are fully aware of this risk, and have actions that they can take to remain within budget. In short, this would result in an Authority that simply delivers on their devolution deal commitments and steps back from their wider more collaborative role that adds value to the region.

Our assessment is that the Authority are managing this risk sensibly and proactively and it is not regarded as a weakness

Strategic priorities

The Authority has a very focused set of services with Transport and Adult Education being the major components of service delivery. The Authority is very clear in the way it plans its finances to support its strategy and it works closely with its partners and constituent members in doing so.

As part of its strategic remit the Authority faces a continuing challenge to attract government investment into the region in future. This is especially difficult in an environment when the national financial outlook is more challenging, and they are likely to be competing with other regions. The risk for the Authority is that they become an administrator of funding already secured, rather than a channel for new money. In mitigation of this risk, the Authority were recently awarded

Trailblazer funding and new powers as part of the government white paper on levelling up, and in the subsequent bill that is going through parliament. This is positive evidence of the authority's ongoing ability to attract new investment and its value add for the West Midlands community.

Alignment of Plans

The Authority's plans are closely aligned with its Aims and Objectives/Strategy document and the performance monitoring system has, during 2021/22 and into 2022/23, been updated to better connect reporting of the performance and finances. These now link to the high level deliverables (HLDs) and milestones which make up the aims and objectives, giving senior leadership a more holistic view of the performance against the Aims and Objectives. The new system is app based and is accessed via Microsoft Teams making it easily accessible and usable by managers responsible for HLDs/milestone delivery. A Microsoft Power BI platform is then used to provide informative dashboards for management. It is the early days of its development with work focusing on allocating capital budgets to specific HLDs and milestones which underpin the Aims and Objectives but from a review of the tool and its outputs the results are very promising.

Our assessment is that this is a very positive approach and its development is to be encouraged as it will allow a much more rounded assessment of the Authority's performance by senior management on a regular basis.

Financial Resilience

This has been an especially difficult period with macroeconomic volatility prevalent for some time and inflationary and interest rate pressures causing financial plans to be constantly reviewed. The Authority has, via its financial monitoring, consistently kept costs under review.

As an example, as inflationary pressures rapidly built up in the Spring of 2022, the Finance team took a report to the Investment Board in April documenting how it was dealing with inflationary pressures in the Investment/Capital programme and has been prudent in its forward assumptions.

The general fund reserve balance has fallen at the end of 2021/22 to £1.6m, which remains below the suggested benchmark of between 3% and 5% of expenditure. This is acknowledged by the section 151 officer as part of the budget reporting. To mitigate this to some extent earmarked reserves are held to ensure existing commitments can be delivered. This is evidenced by the transfer of the 2021/22 surplus into earmarked reserves to support the transport budget and mitigate against further risks. The earmarked general fund budget held a balance of £56m at the end of 2021/22, and increase of £14m from the prior year.

Conclusion on Financial Sustainability

The Authority continues to operate in a financially and operationally challenging environment. Their financial planning both in the short and medium term is on a sound footing with prudent assumptions being built into both. The signals are that the challenges will continue so the need for the structured and disciplined approach to managing finances and reserves which the Authority has demonstrated will continue to be crucial. Given the high dependency the Authority has on a successful Devolution Deal, they will need to be alive to the potential for that funding not to materialise in full and should plan accordingly.

Governance



We considered how the Authority:

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

Risk management and Internal Control

The Authority has a well established risk management process which was baselined in our 2020-21 audit and sees risks logged in a Strategic Risk Register and reviewed regularly at the Audit, Risk and Assurance Committee (ARAC).

The Authority has an internal audit function in place that complies with the Public Sector Internal Audit Standards. Internal Audit (IAU) is provided by the Wolverhampton Council IAU team. In 2021-22, 16 IAU reviews were carried out. Of these 15 were assessed as Substantial or satisfactory levels of assurance with one relating to Longbridge Park and Ride Income Management and Charging Arrangements assessed as "Limited".

Based on the work undertaken during the year, and the implementation by management of the recommendations made the Head of Internal Audit's opinion gave a reasonable level of assurance for 2021/22. A reasonable level of assurance is one where there is a sound system of governance, risk management and control in place, however some areas for improvement have been identified.

One of IAU's reports related to risk management arrangements and they made one amber rated recommendation regarding establishment of Directorate level risk management arrangements and supporting risk management procedures with a clear process of escalation of risks to the Strategic Risk Register.

We consider that the coverage has been adequate and have no concerns about their effectiveness. Our attendance at ARAC has given us good insight into the findings and allowed us to make an objective assessment.

Budget setting

The annual budget setting process and proposed spending and savings initiatives are rigorously challenged from March/April up to November when the budget is finalised before being presented to the Board in February. It includes details of the Investment/Capital programme and the associated revenue costs and it also includes analysis of the ongoing Reserves position. Our assessment is that the process is robust and contains sufficient rigour and challenge.

Standards

The Authority publishes its key policies and standards documents on its website. Internal Audit ensures that the compliance arrangements are widely tested and their reasonable assurance opinion confirms that there are appropriate arrangements in place. Senior officers have a good understanding on the legislative and regulatory requirements of the Authority and ensure that these are maintained. We have no evidence of any standards breaches in the year.

Governance

Reporting

Last year's VfM audit noted:

"While not considered a significant weakness, there is scope for the link between performance and finance reporting to be strengthened."

Throughout 2021-22 and 2022-23 financial years, the Authority has been developing a new performance management approach and has developed an app on MS Teams which budget holders are now using to report their performance against the Aims and Objectives. Work is ongoing on linking finance and risk information to each of the High Level Deliverables (HLDs) and milestones which underpin each aim and objective. Ultimately, this will provide a holistic view of performance of the Authority against each of its Aims and Objectives on a monthly basis. It is work in progress and we will revisit this as part of the audit of 2022-23. Progress to date has been good and our assessment is that this will prove an extremely useful review mechanism for senior management going forward.

Financial monitoring reports are comprehensive and detailed. They cover both revenue and capital expenditure monitoring, Treasury management and reserves analysis and also useful commentary for senior management to be able to take effective decisions.

Decision Making

Our 2020-21 VfM audit provided a good baseline analysis of the governance arrangements and these have continued through 2021-22. The Authority has a well established governance structure with committees covering Economic Growth, Employment, environment and Energy, Housing and Land, Investment, Overview & Scrutiny and Wellbeing. For one of the major areas of responsibility, Transport, there are 2 committees, the Transport Delivery committee and sub committee to specifically oversee the transport issues.

All the above Committees/Boards support the WMCA Board which meets quarterly.

Our VfM audit of 2020-21 highlighted an issue relating to ARAC attendance. It is disappointing to note that physical attendance at ARAC meetings has again not met with expectations. This led to a number of meetings being inquorate again. The Independent Chair of the committee continues to raise this issue with members, and is actively working to improve attendance. The Authority is also looking at its Constitution in order to reflect how it now operates but any changes to this in terms of quoracy would require primary legislation.

Conclusion on Governance

The audit plan did not identify any risks of significant weakness in relation to Governance, and our detailed work in this area has not identified any additional risks to consider.

The governance arrangements of the Authority are strong with effective scrutiny of finances, performance and key decisions, carried out regularly in a structured and transparent way.

We have not made any key recommendations in this area, but have noted one recommendation for improvement, set out overleaf.

Improvement recommendations



Governance

Recommendation 1

Where the Audit Risk and Assurance Committee (ARAC) is required to make decisions that impact upon deadlines and/or statutory requirements, assurances should be sought from members that they are able to be present or will send a substitute, so that the meeting will be quorate.

Why/impact

The ability to make timely decisions is an important aspect of the Governance of the Authority, and being unable to make decisions can impact on the Authority's ability to meet statutory deadlines.

Auditor judgement

The constitution is such that membership includes thirteen individuals, of which eleven are Councillors from the constituent and non-constituent bodies. For the meeting to be quorate and enable decisions to be taken, nine members need to be present. This is often challenging, creating the potential for delays in decisions being implemented.

Summary findings

There is a clear acknowledgement from the Chair of ARAC of the issue of quoracy of the meetings. Regular reminders are sent to members and the likely impact of non-attendance is considered in advance of the meetings. However, there have still been meetings during the year, where quoracy hasn't been achieved.

Management Comments

We will continue to work with the Independent Chair of ARAC to ensure that meetings of ARAC are quorate. A scheme of member allowances has now been approved by WMCA Board and member attendance will be carefully monitored and published on the WMCA website in line with Local Authority best practice. The move to provide remuneration recognises the crucial role that the Committee holds in ensuring accountability and good governance in the WMCA. It is hoped that this new approach will result in increased attendance, but we will keep the situation under close review. We will also continue to lobby government around the strict quoracy requirements by which we are currently bound and should the new measures prove unsuccessful in raising the profile of the Committee and improving attendance then a scheme of remuneration based on attendance may be considered moving forward.



The range of recommendations that external auditors can make is explained in Appendix C

Improving economy, efficiency and effectiveness



We considered how the Authority:

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

Financial performance information

The WMCA Board receives regular (quarterly) reports of financial and performance information.

As referenced under the Financial Sustainability section of this report, during 2021-22 and into 2022-23 the performance monitoring system has been updated to better connect reporting of the performance and finances, linking them together to give senior leadership a more holistic view of the performance against the Aims and Objectives.

It is the early days of its development with work focusing on allocating capital budgets to specific High Level Deliverables and milestones which underpin the Aims and Objectives. We note the progress made to date and will revisit this area in next year's audit with the expectation that it will be fully developed and operational by that stage.

Service evaluation

The 2020-21 audit baselined this area and our audit has not noted any changes. As in 2020-21 the most significant areas of service delivery in terms of the overall budget remain Transport and Adult Education. In each of these areas, the Authority conducts a procurement exercise to ensure that the service is delivered in the most cost effective way.

A major impact for the authority in the past 12-18 months has been preparation and support for the Commonwealth games. While the greatest area of focus for the Combined Authority was around ensuring Transport links functioned effectively, there were a wealth of other projects that were designed to enable the region to capitalise on hosting the games. The Department for Digital, Culture, Media & Sport (DCMS) have recognised the success of the games, and in particular highlighted the resilience of the transport system during the Games, noting the following;

- Birmingham welcomed over 2 million people through New Street Station
- 2,938 spectator shuttle buses helped 650,000 spectators travel to and from venues,
- 28,000 bike rides on the West Midlands Cycle Hire scheme were made during the Games, an increase of 131% relative to the 3 months prior to the Games
- Over 7,5000 personal bikes used cycle parking facilities at Games venues.

Other projects included;

- Securing £5.2m of funding as part of Find Your Future project, which was designed to support of 3,500 local people into employment and training both pre and post-Games.
- An £812k award from the National Lottery Community Fund to help 1,000 young people connect to Commonwealth Games opportunities.
- £1m investment from the Jobs and Skills Academy to train employees in higher level skills.
- Launching of the Business and Tourism Programme aimed at building on the success of the games to raise the profile of the West Midlands as a destination for tourism, trade and investment. The Authority are delivering on this in partnership with the DCMS, the West Midlands Growth Company, the Department for International Trade, and Visit Britain.

Following on from the Games, the Authority are acting as the accountable body for the receipt of significant grant funding from DCMS. The grant will be split between the Authority and Birmingham City Council. The risk for the Authority will be to ensure that this funding is spent in accordance with the challenging timescales set by the Department. This will be an area that we will review during our work in 2022/23.

Improving economy, efficiency and effectiveness

Partnership Working

One of the Authority's founding objectives is in effect to work in partnership with its seven constituent members and other local organisations such as West Midlands Police and the Local Enterprise Partnership (LEP). There is very good evidence of this via the WMCA Board meetings but also through the other various committees of the WMCA e.g. ARAC, Overview & Scrutiny, Transport Delivery.

The budget and the aims and objectives strategy have been developed in full cooperation and collaboration with partners. WMCA works hard at building and maintaining partnerships. This is evidenced by the CEO and DoF focusing significant effort in this area. This is a key building block in ensuring the Authority continues to deliver its remit.

Given the pressures on funding the transport network (rail and bus) following a drop in passenger numbers due to Covid, the Authority has worked closely with partners on the rail and bus network. Patronage at the Midland Metro is back up to 85% though they have noticed changes in passenger behaviour. The rail network has been hit and concessions are down to 60-70%. Funding for the bus network was guaranteed for 2021-22 and has been extended to end 2022 with an expectation that this will carry on until end March 2023 so short term pressures have been relieved.

However, we note that this will be a pressure in the medium term and the Authority is planning to increase the Transport levy in 2023-24 to deal with funding gaps but in the medium to longer term the transport network remains vulnerable due to there being no national sustainable funding solution in place post March 2023.

Procurement

The Authority employed a new Head of Procurement during 2021-22. The new Head carried out a review of the procurement function and recommended a strengthening of the procurement team. An additional nine staff were recommended to meet increasing demand and which also allows for a procurement lead for each of the areas of responsibility of the Authority's five Executive Directors, alongside the Chief Executive.

Refresher training in procurement has been carried out and a programme of training for key stakeholders in the business has started and is being rolled out during the rest of the financial year.

This is a significant increase in resources for the team and it will be important that the Authority reviews performance to gauge the effectiveness and value for money of the new arrangements.

A new procurement strategy is being developed and is due before the start of the 2022/23 financial year. Ahead of the strategy the new Head has authorised the implementation of a new dynamic procurement system to replace the old framework approach.

This allows for more flexibility in procurement exercises, for example by allowing companies which have previously not been successful in bids to re-bid in other procurement exercises.

One of the key functions of a procurement team is the monitoring of contracts post award to ensure that the contract is delivering its remit. Close management of contracts can also lead to better value for money contracts in the future as metrics and performance measures are reviewed, discussed and renegotiated throughout the lifecycle of the contract. It also allows for a deeper understanding of the contract so that when it next comes up for renewal it can be re-negotiated or re-let to the Authority's advantage.

Contract monitoring is currently the responsibility of individual budget holders. Not all are likely to have contract expertise or experience. A procurement business partner would be able to help here, although our understanding is that the investment in new people is primarily to meet the increased procurement activity as the Authority delivers its strategic objectives and is not a clear opportunity to increase to increase the level of contract monitoring.

Given the importance of contract monitoring we have raised a recommendation for the Authority to consider how to mitigate the potential risk that not all budget holders will have the capacity, expertise or experience in this area to undertake this in the most effective way and therefore that maximum value is not being extracted from the Authority's current contracts and learning is not taken into future contract negotiations.

Conclusion on Improving Economy, Efficiency and Effectiveness

The audit plan did not identify any risks of significant weakness in relation to improving economy, efficiency and effectiveness, and our detailed work in this area has not identified any additional risks to consider. We have not made any key recommendations in this area, but have noted one recommendation for improvement, set out overleaf

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 2

The Authority should consider its approach to contract monitoring to mitigate the potential risk that it may not be being carried out consistently or by staff who have the appropriate skillset or experience and therefore that maximum value is not being extracted from the Authority's current contracts.

Why/impact

Contract monitoring as a function is currently carried out by budget holders. There is a risk that a lack of contract management expertise may mean that there is a risk to the Authority that maximum value is not being extracted from the Authority's current contracts and learning is not taken into future contract negotiations.

Auditor judgement

Close management of contracts can lead to better value for money contracts in the future. It allows for deeper understanding of the contract, so that when it comes up for renewal it can be re-negotiated in a more advantageous way

Summary findings

Contract management is currently the responsibility of individual budget holders. With the increase in procurement expertise there is merit in considering how to mitigate the risk that not all budget holders will have the capacity, expertise or experience in this area to undertake this in the most effective way - including whether the contract management function could be more centralised.

Management Comments

An internal audit of WMCA's contract management arrangements is scheduled to take place in 2023/24. This will include a review of skillsets and experience and will also consider what action needs to be taken to ensure that maximum value is being extracted from the Authority's current contracts. The Innovation, Productivity and Efficiency Board chaired by the Head of Financial Management will also pick up contract management arrangements as a key focus in its work programme in 2023/24.



The range of recommendations that external auditors can make is explained in Appendix C.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 Officers should consider more explicit reporting of the way financial decisions impact on the performance of the authority.	Improvement	January 2022	Work is underway to develop a more holistic approach to explicitly linking management of our finances with our performance. The first Corporate Strategy was approved by WMCA Board on 19 November 2021. This overarching strategy has allowed the Authority to develop a schedule of activity by portfolio for the coming year as part of our annual planning process which was approved together with the 2022/23 budget in a single report for the first time on 11 February 2022. Also under development is a performance management system also known as 'A Single Version of the Truth' which will further develop the improved approach to explicitly reporting the way financial decisions impact on the performance of the authority in the coming months.	Yes	None required
2 Where the Audit Risk and Assurance Committee (ARAC) is required to make decisions that impact upon deadlines or statutory requirements, assurances should be sought from members that they are able to be present or will send a substitute, so that the meeting will be quorate.	Improvement	January 2022	There have been issues in 2021-22 audit re quoracy of the ARAC. Recommendation carried forward	Partially (efforts have been made but outcomes have not improved)	Yes Recommendation repeated in 2021-22 report

Opinion on the financial statements

Audit opinion on the financial statements

We have completed our initial audit of your financial statements, but await the resolution of a sector wide issue on pensions before finalising our audit report. Our draft findings were reported to ARAC on the 24 January 2023

Key findings

There are two adjustments to the financial statements that have resulted in a £7.7m adjustment to the Authority's Balance Sheet in respect of:

- £1.8m reduction in the Authority's net pension liability following receipt of an updated IAS 19 report from the actuary, and
- £5.9m reduction in the valuation of land fund assets following the receipt of the formal valuation report after the draft accounts had been prepared.

In addition to the adjustments listed above, we recommended that the Authority made a number of adjustments to the disclosures within the financial statements, however none had an impact on the resources available to the Authority.

There were two unadjusted misstatements reported, which management did not adjust for on the grounds of materiality i.e. if omitting, misstating or obscuring them could reasonably be expected to influence decisions that users of the financial statements make on the basis of those financial statements. These were as follows;

- Due to the complex nature of the funding for the Metro projects, the Authority has an automated process in place that allocates costs to the capital programme. A challenge of this allocation demonstrates that there is a likelihood that £1.63m of these costs does not meet the definition of capital expenditure and has been incorrectly capitalised. As officers have not done a detailed review of these costs, this estimation has been undertaken on a 'worst case' scenario basis, and as such officers have decided not to amend the financial statements in the current year.

- A BACs run was processed on 30/03/2022 for £1,339k. As this had not cleared the bank statement by the 31st March officers incorrectly made an adjustment for the cash amount back to creditors.

Preparation of the accounts

The Authority provided draft accounts in line with the national deadline

Issues arising from the accounts

The audit has been particularly challenging this year, due to staff sickness in both the client finance team and the audit team. In addition, the complexities of the audit trail, additional risks around grant income and infrastructure, plus queries on the work of the component auditors has meant that the audit has taken longer than was originally planned. We have made specific recommendations to the Authority for improvements needed in future years.

We have also consulted with technical specialist on the treatment of a new £100m loan commitment with Phoenix Life Limited, which the Authority are due to drawn down on 1 August 2023 and have discussed the sufficiency of the Minimum Revenue Provision (a statutory provision required for the repayment of debt) with officers in the finance team. In both cases we have made recommendations to the Authority to ensure their arrangements are appropriate in future years.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Authority. This work will be concluded on completion of the financial statements audit.



Appendices

Appendix A – Responsibilities of the Combined Authority

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

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

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

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

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

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



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We did not identify any significant weakness as part of our planning work, and this was confirmed during the course of our fieldwork.

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability - no significant weaknesses identified	N/A	N/A	N/A
Governance - no significant weaknesses identified	N/A	N/A	N/A
Improving economy, efficiency and effectiveness - no significant weaknesses identified	N/A	N/A	N/A

Appendix C – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Authority. We have defined these recommendations as ‘key recommendations’.	No	
Improvement	These recommendations, if implemented should improve the arrangements in place at the Authority, but are not a result of identifying significant weaknesses in the Authority’s arrangements.	Yes	Pages 12 and 15

Appendix D – Sources of evidence



Staff involved

- Laura Shoaf, Chief Executive
- Linda Horne, Executive Director of Finance & Business Hub and Responsible Finance Officer
- Louise Cowen, Head of Financial Management
- Lesley Edwards - Head of Commercial Procurement
- Fiona Bebbington – Head of Transformation
- Kate Taylor, Head of Finance Business Partnering & Strategic Planning



Documents Reviewed

- WMCA Budget 202223_FINAL
- WMCA_Financial Monitoring Report 2021-22_June_2022
- 22.02.16 iPEB BOARD PACK
- WMCA_Investment Programme Update_December_2021
- WMCA_Investment Programme- Cost Escalation Commentary
- WMCA Aims_ & Objectives_Nov_21_Appendix
- WMCA_ARAC SRR Update - April 2022
- WMCA_Internal Audit Annual Report
- WMCA_August_2022_Risk Scorecard 1
- WMCA_Annual_Business_Plan_September 22 SLT report
- WMCA_Final Risk Management audit Report
- WMCA_Constitution
- WMCA_Transport_Delivery_Committee_Financial Monitoring Report_Nov_2021
- WMCA_Transport_Delivery_Committee_Report back from Member Engagement Groups_Sept_2021
- WMCA_Internal Audit Update_January_2022
- WMCA_Investment Programme Update_July_2021



Meetings Observed

- ARAC meeting – 18 January 2022
- ARAC meeting – 12 April 2022
- ARAC meeting – 7 July 2022
- ARAC meeting – 4 October 2022

