



WMCA Board

Date	9 February 2018
Report title	2018/19 Budget and Council Tax
Portfolio Lead	Councillor Izzie Secombe - Finance & Investments
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Report to be/has been considered by	WMCA Programme Board – 26 January 2018

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

1. Note the consolidated revenue budget monitoring position as at 31 December 2017;
2. Approve the West Midlands Combined Authority consolidated revenue budget for 2018/19 summarised in Paragraph 5.23. This includes:
 - a) the budget requirement for transport delivery 2018/19 – 2020/21 comprising of two elements:
 - i. £114.7 million for 2018/19, reverting to £114.1 million for 2019/20 and 2020/21 to be funded from the existing transport levy mechanism;
 - ii. a transfer from earmarked reserves of £1.0 million a year for 3 years; and
 - b) the West Midlands Combined Authority Operational budget requirement for 2018/19 of £11.8 million to be funded by the continuation of the £25,000 Non Constituent Authority contribution and a Constituent Authority contribution, subject to local authority agreement, that comprises of three elements:

- i. the continuation of the £0.25 million membership on an equal shares basis that totals £1.75 million;
 - ii. for 2018/19 only, a £0.17 million fee on an equal shares basis totalling £1.19 million with regard to the delivery of outcomes of the West Midlands Combined Authority Commissions that are consistent with the plans taken through the West Midlands Combined Authority Board prior to the 2018/19 financial year; and
 - iii. a fee of £1.71 million representing costs already incurred and funded by the Constituent Authorities in 2017/18 within the Transport Levy and funded on the basis of population in relation to corporate services that support the West Midlands Combined Authority Operational Budget that are to be accounted for under the Operational Budget.
 - c) The West Midlands Combined Authority Mayoral budget requirement of 2018/19 of £823,000 to be funded by the following sources:
 - i. £558,000 Mayoral Capacity Fund; and
 - ii. £265,000 Contribution from Constituent Authorities as a result of a rebate granted to Constituent Authorities and then returned to West Midlands Combined Authority in 2017/18 to fund Mayoral costs as set out in Paragraphs 3.4 and 3.5.
3. Note the inclusion of a Precept in 2019/20 and 2020/21 for Mayoral Office costs, Network Resilience, and a contribution to the West Midlands Combined Authority Investment Programme and support this in principle subject to further work between the Mayor and Constituent Authorities in 2018/19 and final approval prior to the February 2019 West Midlands Combined Authority Board and with reference to Recommendation to 10 (a);
4. Endorse the West Midlands Combined Authority indicative Medium Term Financial Plan as set out in Paragraph 8.2;
5. Approve the Transport Capital Programme as set out in Paragraph 7.2;
6. Note the planned spend on the Investment Programme over the 3 year period as set out in Paragraph 7.4;
7. Approve the budget for the 2018/19 WMCA supplementary Capital Programme containing the Land Remediation Fund and Collective Investment Fund budgets, subject to West Midland Combined Authority obtaining the necessary borrowing powers;
8. Delegates to the Director of Finance in consultation with the Portfolio Lead for Finance to make any final changes that may result from the Final Local Government Finance Settlement or the conclusion of the funding agreements arising from the West Midlands second Devolution Deal should they arise as set out in Paragraph 2.6;
9. Approve the following policies and strategies as required by Statute:
 - a) The West Midlands Combined Authority Pay Policy Statement as set out in Section 15;
 - b) The West Midlands Combined Authority Treasury Management Strategy as set out in Section 10;
 - c) The West Midlands Combined Authority Prudential Indicators and Minimum Revenue Provision Strategy as set out in Section 11.

10. Approves the establishment of Task and Finish Groups comprising the Portfolio Lead for Finance, the Mayor and West Midlands Combined Authority Board members as follows:
- a) Review and recommend changes to the West Midlands Combined Authority Constitution based on 18 months experience of operation as set out in Paragraph 5.22;
 - b) As per the January 2018 Investment Programme report – Review of scheduling prioritisation and funding of the Investment Programme as set out in Paragraph 5.22; and
 - c) Review and develop a four year Medium Term Financial Plan for revenue, capital and the Investment Programme as set out in Paragraph 8.7.

1 Purpose

- 1.1. This report is intended to present the final West Midlands Combined Authority budget, levy and precept for 2018/19 for approval by the West Midlands Combined Authority Board. A draft budget, levy and Mayoral Precept for 2018/19 was approved for consultation and scrutiny by the West Midlands Combined Authority Board at its meeting on 12 January 2018.
- 1.2. This report provides an update based on changes made since the 12 January 2018 and takes account of discussions between the Mayor and West Midlands Combined Authority Constituent Members following the amendment made to Recommendation 3 with regard to the Mayoral Precept at the West Midlands Combined Authority Board on 12 January 2018.
- 1.3. The West Midlands Combined Authority Overview and Scrutiny Committee's Budget Scrutiny Task Group has now completed its scrutiny work in relation to the draft budget and the views of the Budget Scrutiny Task Group are set out in this report for consideration by the West Midlands Combined Authority Board.

2 Introduction

- 2.1. This report represents the final stage of the budget setting process for the West Midlands Combined Authority. If approved, this report presents the final revenue and capital budget for 2018/19 together with an Indicative Medium Term Financial Plan and associated policies required by Statute.
- 2.2. This report incorporates known changes from the 2017 Provisional Local Government Finance Settlement and details from the Devolution Deal as they have become known over the intervening period. The final 2018/19 Local Government Finance Settlement is due to be laid before the House of Commons, for its approval, in February 2018 and so a verbal update will be provided at the meeting of the West Midlands Combined Authority on 9 February 2018.
- 2.3. The Mayor and the West Midlands Combined Authority have listened to feedback on the Draft Budget during January 2018. This has included formal feedback from the Constituent Members of the Combined Authority with regard to the Mayoral Precept as well as key messages from the Overview and Scrutiny Committee, key stakeholders and residents across all budget areas.
- 2.4. The final allocation of monies set to be received by the West Midlands Combined Authority as part of the second Devolution Deal with Central Government are being concluded and the current position is provided in this report. It is not expected that the amount or profile of funding will change substantially from that included in this report and a verbal update will be provided at the meeting of the West Midlands Combined Authority on 9 February 2018.
- 2.5. This report summarises changes made in January 2018 and recommends a budget capable of agreement by the West Midlands Combined Authority Board and importantly sets out a key change to defer the proposed Mayoral Precept from 2018/19 to 2019/20.
- 2.6. Delegation is requested to the Director of Finance in consultation with the Portfolio Lead for Finance to make any final changes that may result from the Final Local Government Finance Settlement or the conclusion of the funding agreements arising from the West Midlands second Devolution Deal should they arise.

3 Building on a strong base – the 2017/18 forecast revenue outturn

- 3.1. The West Midlands Combined Authority's forecast outturn for 2017/18 at Month 9 (December 2017) indicates a favourable position. This is consistent with that presented within the Draft Budget Report. The forecast represents actual performance for nine months of the 2017/18 financial year together with a forecast for the remaining three months. Net spending for the Mayor's office continues to be in line with the original budget. The following table illustrates the overall position at the end of December 2017 inclusive of the transfer to earmarked reserves approved in the January Draft Budget report in relation to the Minimum Revenue Provision.

Table 1: West Midlands Combined Authority Revenue Budget 2017/18

£ million	Original Budget	Forecast Outturn	Forecast Variance
Transport Delivery	121.5	120.6	0.9
WMCA Operational Budget	4.3	4.1	0.2
Mayor's Office	0.4	0.4	-
Mayoral Election	5.0	4.9	0.1
Investment Programme	30.0	30.0	-
Total	161.2	160.0	1.2

- 3.2. The forecast favourable variance on the West Midlands Combined Authority Operational Budget has already been factored into the Draft Budget Report into the 2018/19 Operational Budget in order to minimise Constituent Authority contributions for 2018/19 and the assumption on the Mayoral Election Underspend is that this is returned and made available to fund the Investment Programme.
- 3.3. The Transport for West Midlands forecast underspend is primarily as a result of savings on the English National Concessionary Travel Scheme. Whilst three months remain in the financial year that could see movement in this forecast, officers have identified a further £0.265 million that will not be spent on the delivery of the outcomes approved in the 2017/18 approved budget in relation to Transport that can be released.
- 3.4. It is therefore recommended that the West Midlands Combined Authority Board approve a rebate to the Constituent Authorities of £0.265 million in 2017/18.
- 3.5. To support the deferral of Precept from 2018/19 to 2019/20 set out in more detail in Section 5 the West Midlands Combined Authority is recommended to confirm that this rebate can also be returned in 2017/18 to the West Midlands Combined Authority to the same value in 2017/18 to provide funding in respect of Mayoral costs.
- 3.6. This will enable existing funding of the Mayoral Office in 2017/18 to be transferred into an Earmarked Reserve that can be used in 2018/19. For clarity, the split by Constituent Authority is set out in the following table:

Table 2: Proposed rebate of the 2017/18 Transport for the West Midlands Levy for reinvestment into the 2018/19 Mayoral Office

Constituent Authority	£ million
Birmingham	0.104
Coventry	0.032
Dudley	0.029
Sandwell	0.030
Solihull	0.020
Walsall	0.026
Wolverhampton	0.024
Total	0.265

4 Consultation and Engagement on the Draft 2018/19 Budget

4.1. Consultation and engagement has taken place and is ongoing, including press briefings and scanning of social media. Since the January 2018 West Midlands Combined Authority Board meeting, informal budget consultation has taken place with the following organisations:

- Employee representatives including Unions;
- Non Constituent Authorities; and
- Wider partners and stakeholders.

4.2. Overall, the feedback indicated broad support for the Draft Budget and support for the delivery of outcomes set out in the Draft Budget. The Unions indicated their broad support for investment in public services including through the Precept.

4.3. Non-constituent members confirmed their support for the proposal to maintain their subscription rates at 2017/18 levels.

5 Summarised changes proposed to the Draft Budget

5.1. The West Midlands Combined Authority Board at its meeting on 12 January 2018 approved an amendment to the recommendation with regard to a proposed Mayoral Precept.

5.2. The majority of the Draft Budget proposed for consultation relates to the delivery of the Transport for West Midlands service as well as the West Midlands Combined Authority operational budget and therefore remains unchanged.

5.3. The draft budget report was circulated to all members on 20 December 2017 and all comments received incorporated. A formal response was made by the members of the Combined Authority following the West Midlands Combined Authority Board on 24 January 2018 and is included as Appendix 8. The points made can be grouped into 3 areas:

- a. Reflections on the Mayoral Precept;
- b. Reflections on the West Midlands Combined Authority constitution; and
- c. Reflections on the Investment Programme with regard to item 8 on the January 2018 West Midlands Combined Authority Board agenda.

- 5.4. Each is dealt with in the report. This clearly sets out the desire for a 2018/19 Mayoral Precept to be deferred.
- 5.5. Following the receipt of this letter, the Mayor met with the Leaders of the seven Constituent Authorities to explore the potential for a settlement to be reached that ensured an appropriate budget could be set to deliver the outcomes agreed by the West Midlands Combined Authority Board whilst acknowledging the need to minimise for 2018/19 the impact on residents through a Mayoral Precept.
- 5.6. This report clearly sets out the response to the members of the West Midlands Combined Authority and this section sets out the outcome of that work that concluded in a proposed deferral of the 2018/19 Precept to 2019/20 subject to further work in 2018/19 and final approval at the February 2019 West Midlands Combined Authority Board. This approach is supported by the Mayor and the all Constituent Authorities.
- 5.7. In summary, the following changes have been incorporated into this Final Budget report to allow a deferral of Mayoral precept in 2018/19 to 2019/20:

Network Resilience

- 5.8. The Mayor and the Constituent Authorities have reached an agreement to fund the costs of the Network Resilience team for 2018/19 only through an increase to the Transport for West Midlands Levy.
- 5.9. The intention is to consider the funding of the costs of Network Resilience for 2019/20 onwards within the Mayoral Precept subject to further work to confirm the outcomes delivered within this area from 2019/20. These costs have been agreed as recurrent as they mainly cover the costs of staffing. The decision therefore remains only in setting the Budget in February 2019 on the source of funding rather than whether the costs should or should not be incurred and funded.
- 5.10. The following table sets out the impact of this decision on the Levy in respect of Transport for West Midlands in 2018/19.

Table 3: Impact on the proposed contributions following the transfer of Network Resilience costs from the Mayoral Precept to the Levy for 2018/19 only

£k*	Draft Budget	Final Budget	Change
Birmingham	45,897	46,121	225
Coventry	14,691	14,761	70
Dudley	13,264	13,328	64
Sandwell	13,470	13,534	64
Solihull	8,983	9,025	42
Walsall	11,690	11,746	56
Wolverhampton	10,797	10,848	51
Total	118,792	119,364	572

The rounding is to the nearest thousand pounds due to the minor nature of the adjustment in the context of the overall budget.

Contribution to the Investment Programme

- 5.11. The West Midlands Combined Authority Board considered a status report on the funding position of the Investment Programme at its January 2018 meeting. A summary of the current position with regard to funding is repeated in the table below that set out only 30% of the £8 billion funding package was 'Green' rated.

Table 4: Status of Funding for the overall Investment Programme

	February 2016		December 2017	
	£ billion	%	£ billion	%
Green	0.5	6%	2.4	30%
Amber	6.5	81%	3.6	45%
Red	1.0	13%	2.0	25%
Total	8.0	100%	8.0	100%

- 5.12. The table above illustrates that a significant amount of work is still required to deliver the assurance of the funding package that was envisaged when the region's first Devolution Deal was agreed. Following the January 2018 West Midlands Combined Authority Board meeting a number of key events have occurred in relation to funding as set out below:

- a. Outline agreement with the Ministry of Housing, Communities and Local Government of £5.1 million of funding that the West Midlands Combined Authority will receive in respect of localised business rates collected in 2016/17. The region's first Devolution Deal included £1.5 million as receivable in respect of 2016/17 and therefore this sees an increase of £3.6 million from the forecast; and
- b. Confirmation of £3 million receivable from the seven Constituent Authorities in respect of 2017/18 localised business rates collected. This is consistent with the forecast included in the region's first Devolution Deal and included in the draft budget.

- 5.13. Whilst these amounts are relatively small in respect of the overall funding package for the Investment Programme the additional Business Rates received in 5.12 a) is welcome and this funding will turn from 'Amber' to 'Green' rated in this respect.

- 5.14. Agreement has therefore been reached with the Constituent Authorities that a Precept for a contribution to the Investment Programme of £6 million can be deferred for one year only without a material effect on the current status of the Investment Programme. This is dependent on the review as approved in the Status Report of the Investment Programme that was approved by the West Midlands Combined Authority Board in January 2018. The need for this review has been reinforced within the feedback from the Leaders of the seven Constituent Authorities to the Mayor and a timescale for delivery is proposed for the first half of the 2018/19 financial year.
- 5.15. Whilst the risk profile has therefore not materially changed from this one year deferral of Precept, there remains a significant risk that all investments may not be able to be funded unless key areas of red and amber risk highlighted in the January Report on the Investment Programme are addressed. Therefore each investment decision during the period of this review will need to be considered in the light of the current funding position.

Mayoral Office Costs

- 5.16. The Mayoral Office costs set out in the draft budget were £888,000. A request was made by the West Midlands Combined Authority Leaders within their feedback to the Mayor for a deferral of Precept for the costs of the Mayoral Office in 2018/19 only. Work has been undertaken to explore the possibility of alternative sources of funding for one year only in respect of the Mayoral Office costs and a summary is provided in this section of the report.
- 5.17. Further key information has been received from Central Government in relation to Devolution Funding that provides an opportunity to reconsider how the costs of the Mayoral Office are funded in 2018/19 only. These are set out below:

a. **Mayoral Capacity Fund**

The November 2017 Budget indicated the availability of a Mayoral Capacity Fund for 2018/19 and 2019/20 of £12 million to be shared amongst all Mayoral Combined Authorities. At the time of publishing the Draft Budget details were yet to be shared with the West Midlands Combined Authority to confirm the amount that may be allocated to the West Midlands and also the profile of funding between 2018/19 and 2019/20.

As a result, the Draft Budget included a prudent allocation of £641,000 for 2018/19 in support of the delivery of outcomes across the Operational Budget pending confirmation from Central Government of funding.

Confirmation was received in Week Commencing 22 January 2018 that £2 million will be made available to the West Midlands Combined Authority weighted equally across 2018/19 and 2019/20. This therefore increases the funding available in 2018/19 by £358,000 and the intention is to apply this time limited Mayoral Capacity Fund to the costs of the Mayoral Office for 2018/19 only.

The remaining funding for 2019/20 over and above that included in the Draft Budget has been allocated to the development of the Industrial Strategy for the region and will be subject to a further report to the West Midlands Combined Authority board in due course.

b. Skills Funding

A contribution of £153,000 from the Mayoral Capacity Fund and £47,000 from Constituent Authority Contribution was included within the Draft Budget in support of delivery of the Skills Operational Budget in 2018/19.

The assumptions around the opportunity to draw down funding to support the West Midlands Combined Authority Skills Strategy in 2018/19 has been reviewed. 2018/19 represents the second year that a grant of approximately £200,000 can be applied for in support of preparations for the devolution of the Adult Education Budget. The forecast for 2018/19 now incorporates this funding to be drawn down in support of costs included in the draft budget.

This has allowed £200,000 of funding that previously supported the Operational Budget to now be made available to support the Mayoral Office for one year only.

5.18. As set out in Paragraph 3.5 above, £265,000 from reserves is available to fund the Mayoral Office costs for 2018/19 only.

5.19. The alternative funding proposals summarised in this section leave a balance to fund of £65,000. Agreement has been reached to reduce the budget for the Mayoral Office for 2018/19 only by this amount to deliver a balanced budget in support of the deferral for one year only of the Mayoral Precept. In summary, the West Midlands Combined Authority Board are recommended to approve the deferral of the 2017/18 Mayoral Precept for one year only as set out in the following table:

Table 5: Summarised changes to the funding of the 2018/19 Mayoral Office Costs

Element of Mayoral Office costs	Draft Budget	Final Budget
Mayoral Office	888,000	888,000
<u>Alternative Funding identified for 2018/19 only:</u>		
Mayoral Capacity Fund previously unallocated		(358,000)
One-off TfWM forecast underspend rebate reallocated		(265,000)
Mayoral Capacity Fund reallocation due to DfE income		(153,000)
Reduction in Mayoral Budget for 2018/19 only		(65,000)
Constituent Authority reallocation from Operational Budget		(47,000)
Sub-Total		(888,000)
<u>Network Resilience</u>		
Funded now through the TfWM Levy for 2018/19	572,000	-
<u>Contribution to the Investment Programme</u>		
Deferred for one year due to review and 2016/17 Income confirmed with MHCLG	6,000,000	-
Total	7,460,000	-

5.20. There are no further changes proposed to the Draft Budget approved for Consultation and Scrutiny. The changes outlined above reached on the basis of consensus and agreement between the Mayor and the Combined Authority Constituent Members.

5.21. Therefore the funding for the £11.8 million West Midlands Operational Budget is confirmed as follows:

- a. the continuation of the £25,000 Non Constituent Authority contribution and a Constituent Authority contribution, and
- b. Subject to local authority agreement, that comprises of three elements:
 - i. the continuation of the £0.25 million membership on an equal shares basis that totals £1.75 million;
 - ii. for 2018/19 only, a £0.17 million fee on an equal shares basis totalling £1.19 million with regard to the delivery of outcomes of the West Midlands Combined Authority Commissions that are consistent with the plans taken through the West Midlands Combined Authority Board prior to the 2018/19 financial year; and
 - iii. a fee of £1.71 million representing costs already incurred and funded by the Constituent Authorities in 2017/18 within the Transport Levy and funded on the basis of population in relation to corporate services that support the West Midlands Combined Authority Operational Budget that are to be accounted for under the Operational Budget.

5.22. In addition, the West Midlands Combined Authority Board are recommended to approve the establishment of the following Task and Finish Groups that comprise the Mayor, Portfolio Lead for Finance and Constituent Authority Board Members supported by relevant Officers of the West Midlands Combined Authority. The intention is to explore the further points made by the Constituent Members with the aim of reporting findings later in 2018/19.

- a. Examination and recommendation if needed of changes to the Constitutional Process in relation to Budget setting;
- b. As set out in the January 2018 Investment Programme Funding Status Update a group to review the scheduling and prioritisation of the Investment Programme should funding not be available to support investment allocation decisions.

5.23. The Final consolidated revenue budget position for 2018/19 is set out in the following table:

Table 6: WMCA Consolidated Draft Revenue Budget

£m	Total	Mayor	Operational	Transport	Investment Programme
Income					
Transport Levy	114.7	-	-	114.7	-
Devolution Deal Grants	42.5	0.5	5.5	-	36.5
Business Rates Growth	8.1	-	-	-	8.1
Membership	1.8	-	1.8	-	-
Commissions	1.1	-	1.1	-	-
Corporate Services	1.7	-	1.7	-	-
Non Constituent Members	0.4	-	0.4	-	-
Investment Income	0.5	-	0.5	-	-
3rd Party Income	0.4	-	0.4	-	-
Use of Reserves	1.7	0.3	0.4	1.0	-
Sub Total	172.9	0.8	11.8	115.7	44.6
Expenditure					
Mayoral Office	0.8	0.8	-	-	-
Transport Delivery	115.7	-	-	115.7	-
Operational Budget	11.8	-	11.8	-	-
Interest Payable	3.6	-	-	-	3.6
Investment Programme Governance	1.0	-	-	-	1.0
Capital Expenditure Financing	40.0	-	-	-	40.0
Sub Total	172.9	0.8	11.8	115.7	44.6
Net	-	-	-	-	-

- 5.24. The proposed contributions from Constituent Authorities based on this draft budget will reduce by £3.9 million compared to £4.5 million included in the draft budget report.
- 5.25. The contributions from Non-Consistent Authorities remain flat at £25,000 per annum for 2018/19 following the period of consultation and will be subject to annual review over the medium term.
- 5.26. There are no further changes proposed to the Transport for West Midlands budget, other than the addition of Network Resilience costs as set out in paragraph 5.8.

6 Confirmation of Devolution Grants

- 6.1. The West Midlands Combined Authority has been working with Central Government's Cities and Local Growth Unit to confirm the final profiled allocations of funding agreed as part of the region's second Devolution Deal. As set out in previous sections of this report, that funding has not been confirmed in all instances.

- 6.2. Whilst it is not anticipated that there will be any change from the assumptions incorporated within this report a verbal update will be provided at the West Midlands Combined Authority February meeting.

7 Capital Programme Summary

Transport for the West Midlands

- 7.1. There are no changes proposed from the Draft budget in relation to the West Midlands Combined Authority Transport Capital Programme.
- 7.2. For completeness the West Midlands Combined Authority Board is recommended to approve the Transport for West Midlands Capital Programme as summarised in following table.

Table 7: Summary Transport Capital Programme

£m	2018/19	2019/20	2020/21	Total
HS2 Connectivity Programme	58.6	111.3	132.0	301.7
Metro Birmingham Eastside Extension	21.0	41.0	31.9	94.0
Metro East Birmingham to Solihull	3.6	6.0	17.0	26.6
Metro Wednesbury to Brierley Hill	13.7	12.6	38.9	65.2
TfWM Investment Programme Schemes	96.9	170.9	219.8	487.5
Asset Renewal and Replacement	1.3	1.2	1.2	3.7
Project Development	1.9	0.9	-	2.8
Metro, Rail and Bus Minor Works	1.3	1.5	2.3	5.1
Key Route Network	0.8	1.0	1.0	2.8
Sustainable Travel	4.2	-	-	4.2
Other Capital Programmes	9.5	4.6	4.5	18.6
Total	106.4	175.5	224.3	506.1

Investment Programme

- 7.3. There are no changes proposed to the Draft budget in relation to the West Midlands Combined Authority Investment Programme.
- 7.4. The approved Investment Programme planned spend 2018/19 – 2020/21 is currently £531.5 million and is set out in Appendix 4 for noting.
- 7.5. Changes to funding outlined in Section 5 have been updated.

West Midlands Combined Authority Supplementary Capital Programme

- 7.6. As per the recommendations within this report, West Midlands Combined Authority Board are requested to approve the 2018/19 supplementary Capital Programme budget of £86.2 million which contains non-transport schemes West Midlands Combined Authority are required to deliver directly as follows:

Table 8: Supplementary Capital Programme

£m	2018/19
Land Remediation Funds	30.0
Collective Investment Fund	56.2
Total	86.2

- 7.7. The above allocations are core priorities within the Investment Programme. Whilst the Land Remediation funds will largely provide grant funding to kick-start economic growth (funded by West Midlands Combined Authority Investment Programme income), the Collective Investment Fund is an evergreen fund which will be underwritten by the Combined Authority.
- 7.8. It should be noted that approval of the budget by the West Midlands Combined Authority Board will be subject to the West Midlands Combined Authority obtaining the necessary borrowing powers from Central Government to undertake the transactional elements of the programme. This is currently expected to be April 2018.

8 Confirmation of Indicative Medium Term Financial Plan

- 8.1. The indicative Medium Term Financial Plan has been updated based on those changes outlined above in this Final Budget Report. This includes reflecting the Deferral for one year only from 2018/19 to 2019/20 of the Mayoral Precept, the movement of funding for Network Resilience for 2018/19 to the Transport for West Midlands Levy and the alternative funding of the Mayoral Office costs for 2018/19.
- 8.2. The indicative Medium Term Financial Plan for the years 2019/20 and 2020/21 remain the same as set out in the Draft Budget Report except for the inclusion of the Mayoral Capacity Fund now that the value and profile has been confirmed by Central Government.

Table 9: Consolidated Medium Term Financial Plan

£m	2017/18	2018/19	2019/20	2020/21
Income				
Transport Levy	121.5	114.7	114.1	114.1
Devolution Deal Grants	36.5	42.5	43.7	41.3
Business Rates Growth*	0.0	8.1	6.0	7.5
Constituent Members				
Membership	1.8	1.8	1.8	1.8
Commissions	-	1.1	1.2	1.2
Corporate Services	-	1.7	1.7	1.7
Non Constituent Members	0.4	0.4	0.4	0.4
Investment Income	0.9	0.5	0.5	0.5
Mayoral Precept	-	-	7.5	7.5
3rd Party Income	0.0	0.4	0.1	0.5
Use of Reserves/Other	0.0	1.7	1.0	1.0
Sub Total	161.2	172.9	178.0	177.5
Expenditure				
Transport for West Midlands Levy	121.5	115.7	115.1	115.1
Operational Budget	4.3	11.8	13.0	10.9
Investment Programme: Interest Payable	-	3.6	7.6	10.8
Investment Programme Governance	0.7	1.0	1.0	1.0
Mayoral Office	5.4	0.8	1.5	1.5
Revenue Financing of Capital Expenditure	29.3	40.0	39.8	38.2
Subtotal	161.2	172.9	178.0	177.5
Net	-	-	-	-
* Whilst income from business rates growth has been calculated as receivable in 2017/18, it was not included in the original budget				

- 8.3. The indicative Medium Term Financial Plan for 2019/20 and 2020/21 excluding the network resilience change assumes a cash flat funding requirement from Constituent Authorities both in terms of the Transport for West Midlands levy over the three year period and their contributions to the West Midlands Combined Authority Operational Budget in the latter two years. Whilst this currently represents the planning assumption, it is acknowledged that this creates a potential financial risk specifically with regard to inflationary increases, pay and legislative changes and demand in terms of patronage and the impact of these risks will be kept under review.

- 8.4. Assumptions have been made around pay increases although essentially pay awards negotiated as part of the appropriate collective agreements will be applicable from the appropriate date.
- 8.5. Assumptions have also been made around price rises and the Consumer Prices Index along with changes in patronage and fares. Clearly any variation in pay or prices for 2018/19 will need to be managed within the available resources. These clearly may change significantly over the medium term meaning a cash flat position may not be achievable without changes to policy.
- 8.6. The announcements around the West Midlands Fire and Rescue Services and the Office of the West Midlands Police and Crime Commissioner will require one off costs and the West Midlands Combined Authority will be working with partners to identify how these will be funded.
- 8.7. The West Midlands Combined Authority Board are recommended to approve the establishment of the following Task and Finish Groups that comprise of the Mayor, Portfolio Lead for Finance and Constituent Authority Board Members supported by relevant Officers of the West Midlands Combined Authority to review the Medium Term Financial Plan for Revenue and Capital.
- 8.8. The intention is to develop jointly and through consensus a new plan for 2019/20 to 2022/23 to ensure Medium Term Financial Planning can continue to provide more certainty for the delivery of objectives within a financial framework that meets the needs of its Constituent Members.

9 Commentary on Risk

- 9.1. The Medium Term Financial Plan and Draft Budget incorporated a broad estimate of the financial impact of the following risks and sensitivities; these were
- Demographic growth and demand pressures specifically where transport payments and services are directly affected by patronage demands;
 - Pay and price inflation;
 - Movement on Brexit, this is kept under review in three regards:
 - 1) the potential for increased costs of the reduced supply of labour from areas within the European Union;
 - 2) the costs of goods and services procured in foreign currencies; and
 - 3) the availability of funding from the European Union.
 - Business Rates Retention Scheme and the achievement of growth targets, including the retention mechanism currently being developed through the West Midlands Finance Directors' Group
- 9.2. In addition to those risks identified above the following additional risk is currently being added to the West Midlands Combined Authority Risk Register and whilst there is no immediate impact, it is being considered in relation to the medium term financial plan delivery and financial risk.

- Collapse of Carillion PLC

It is still very early in the process of understanding and responding to the news of Carillion moving into liquidation. The West Midlands Combined Authority does not have any direct exposure to Carillion through its contracts but is working with partners to consider the wider implications of the supply chain. The West Midlands Combined Authority has joined a cross-agency Carillion taskforce group led by the City of Wolverhampton Council. The group has been set up to ensure a co-ordinated approach to support workers and businesses affected by the Wolverhampton-based company going into liquidation.

A number of meetings were held over the last week and we are keen to work with this task group and provide any support that is needed. The taskforce has been and will continue to provide more detail of its work as the true impact of Carillion's liquidation become known. Whilst the impact of the above has not had a substantial impact over the last year on services, these risks continue to be kept under review.

10 Treasury Management Strategy

- 10.1. The West Midlands Combined Authority is required to review its Treasury Management Strategy on an annual basis and the proposed strategy for 2018/19 is set out in Appendix 5. The strategy for 2018/19 has not fundamentally changed since last year, although it has been updated to include how the current forecast for interest rates will affect borrowing and lending transactions.
- 10.2. Investment priorities will continue to be firstly the security of capital (protecting sums from capital loss) and secondly the liquidity of investments (ensuring cash is available when required). Only when these two priorities are met will the third priority of achieving the optimum return on investments be taken into account.
- 10.3. The borrowing strategy will be to borrow to protect the West Midlands Combined Authority cash flows, and to borrow to replenish some of the internal cash balances that have been temporarily used to fund recent years' capital expenditure. It is anticipated that the new borrowing could occur early in 2018/19, particularly should Central Government grant the West Midlands Combined Authority Borrowing Powers in accordance with its current timetable.
- 10.4. It is important to remember that real value is being achieved through Treasury Management by utilising internal cash balances to temporarily support the capital programme. This avoids the need to borrow at the prevailing Public Works and Loans Board Rate, currently around 3%. The Treasury Management Strategy includes the borrowing needed to support the Investment Programme and Transport Capital Programme.

11 The Prudential Code for Capital Finance

- 11.1. The West Midlands Combined Authority is required to set specific parameters each year to control the extent of its borrowing. The essential purpose of this requirement is to ensure that the West Midlands Combined Authority always has the means to make repayments and doesn't borrow beyond its ability to service associated debts. The statement for 2018/19 is set out in Appendix 6.

11.2. The Chartered Institute of Public Finance Accountancy has recently consulted on the introduction of a Capital Strategy in 2018/19 to support improved financial reporting. The West Midlands Combined Authority will work with the Chartered Institute of Public Finance Accountancy to confirm the requirements of this new Strategy and will present a Strategy for approval at the West Midlands Combined Authority Board in 2018/19.

12 Budget Calculation

12.1. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer, in this case, the Director of Finance, as Section 151 officer to report to the West Midlands Combined Authority when it is setting the budget and the precept. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.

12.2. The budget currently provides for the financial implications of the West Midlands Combined Authority's policies to the extent that these are known or can reasonably be assessed. However, there are a number of risks which are beyond the West Midlands Combined Authority's control and for which it is not possible to be precise:

- The West Midlands Combined Authority's demand-led services;
- Inflation and interest rate volatility;
- West Midlands Pension Fund Investment Performance; and
- Unforeseen emergencies.

12.3. Exclusive of the set aside from the 2017/18 Minimum Revenue Provision, the General Reserve Balance as at 31/3/18 is forecast to be £1.8 million. This balance represents only 1.6% of the proposed 2018/19 levy. The Audit Commission recommend that general fund reserves should be between 5% and 7.5% of expenditure. The proposed balance is significantly below this recommended level and consideration should be given over the medium term to increase the level of General Balances to ensure risk can be managed within the West Midlands Combined Authority without creating volatility on the Transport for West Midlands levy.

12.4. Members will also be aware of our obligations as a Best Value authority to make arrangements to secure continuous improvement in the way in which our functions are exercised, having regard to a combination of economy, efficiency and effectiveness, including consultation with tax payers and users as appropriate.

12.5. These obligations are addressed in the medium term financial planning and brought together as part of the annual budget process in this report and the February 2018 Cabinet budget report. This is supplemented by additional Cabinet reports throughout the year with regard to the approval of significant investments and reforms. Despite the above risks, there are also a number of opportunities to consider to ensure optimum financial stability and security that include:

- Capital Financing, making best use of capital financing, including optimum use of access to the Public Works Loans Board; and
- Treasury Management Activity, maximising the current market opportunities for the West Midlands Combined Authority and reviewing the borrowing strategy.

12.6. With regard to the Investment programme, the budget is based on income streams envisaged in region's first Devolution Deal. If this changes and additional funding needs to be generated from the West Midlands Combined Authority's own resources then this may materially change the Medium Term Financial Plan.

12.7. The Director of Finance states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:

- The West Midlands Combined Authority's Strategic Economic Plan and the Mayor's Renewal Plan;
- The need to protect the West Midlands Combined Authority's financial standing and risk;
- The estimated financial position as at the end of 2017/18;
- The financial policies of the Central Government as they impact upon the West Midlands Combined Authority;
- The Transport Capital Programme set out in Appendix 3;
- The Investment Programme set out in Appendix 4;
- The strength of the West Midlands Combined Authority's financial control procedures including audit considerations; and
- The extent of the West Midlands Combined Authority's general balances and earmarked reserves.

13 Statutory Reporting – Scrutiny

13.1. Scrutiny of the 2018/19 budget proposals was undertaken by the Budget Scrutiny Task Group. This included a Mayoral Question Time and session with the Portfolio Lead for Finance. The conclusion of this work informed the report from the Overview and Scrutiny Committee included as Appendix 7.

13.2. The Transport Development Committee reviewed the budget in detail and sought amendment or clarification prior to publication of the draft budget.

13.3. A verbal update in response to the Overview and Scrutiny Committee's report will be provided by the Portfolio Lead for Finance at the West Midlands Combined Authority Board Meeting on 9 February 2018.

14 Fulfilling the Public Sector Equalities Duty.

14.1. The Public Sector Equality Duty is set out in the Equality Act, 2010. The Act lists 9 Protected Characteristics in respect of which the Duty applies. The duty requires public bodies to have Due Regard to (consciously consider) three aims in their decision making and in policy-making and service delivery. The aims are:

- To eliminate unlawful discrimination;
- To advance equality of opportunity between people who share one or more of the Protected Characteristics (listed in the Equality Act) and those who do not; and
- To foster good relations between people who share one or more of the Protected Characteristics and those who do not.

- 14.2. An overarching strategic equality relevance assessment has been undertaken in respect of budget proposals. The assessment quantifies the levels of Due Regard to the aims of the duty for each programme and provides a broad overview on the potential cumulative impact for the most relevant of the Protected Characteristics.
- 14.3. When proposals have been fully developed and are brought to a future West Midlands Combined Authority Boards for decision, these reports will include a more detailed and specific equality impact assessment to ensure the findings are given due regard when any key decisions are made.

15 Pay Policy Statement

- 15.1. The purpose of the Pay Policy Statement is to clarify the West Midlands Combined Authority strategic stance on pay in order to provide direction for members and officers making decisions on pay and to provide the citizens of the West Midlands with a clear statement of the principles underpinning decisions on the use of public funds. The West Midlands Combined Authority Pay Policy Statement is attached at Appendix 9.

16 Legal Implications

- 16.1. Under powers granted by the Combined Authorities (Finance) Order 2017, Elected Mayors may raise a precept on Constituent Authorities Council Tax bills under section 107G of the Local Democracy Economic Development and Construction Act 2009. A Mayoral Precept may only be issued in relation to the costs of the Mayor or of discharging Mayoral Functions. The Mayoral functions are set out in Article 22 of the West Midlands Combined Authority (functions and amendments) Order 2017. In particular, there are powers for the Mayor to engage in highway management activity, works permit schemes, road safety measures and road traffic reduction activity amongst others. The Order also gives the Mayor a functional power of competence to do anything that is associated, incidental or connected with those powers in order to undertake those activities.
- 16.2. The proposal for the Deferral of the 2018/19 Mayoral precept to 2019/20 is included in this report and represents a change from the Draft Report considered by the West Midlands Combined Authority Board at its meeting on 12 January 2018. As a public authority which has the power to levy for transport functions and to raise a precept, the West Midlands Combined Authority must set a budget every year which is agreed through its formal decision-making processes. This year for the first time the mayoral budget is also being set and this report outlines the legal and governance processes that need to be completed including consideration by Overview and Scrutiny Committee and the West Midlands Combined Authority Board.

17 Appendices

- Appendix 1: Transport Delivery Revenue Budget
- Appendix 2: WMCA Operational Budget
- Appendix 3: Transport Capital Programme
- Appendix 4: Investment Programme
- Appendix 5: Treasury Management Strategy
- Appendix 6: Prudential Indicators

- Appendix 7: Overview & Scrutiny Committee feedback
- Appendix 8: Formal note on the Budget from the Constituent Authorities
- Appendix 9: Pay Policy Statement

Transport Revenue Budget

The transport budget and levy for 2018/19 – 2020/21 are set out below.

Expenditure Category	2017/18 Revenue Budget		2018/19 Revenue Budget		2019/20 Revenue Budget		2020/21 Revenue Budget	
	£'000	%	£'000	%	£'000	%	£'000	%
National Policy								
English National Concessions Travel Schem	52,519	43.2%	51,369	44.6%	51,776	45.0%	51,425	44.7%
Finance Related		14.4%		9.9%		8.5%		8.3%
Capital Financing	17,499		11,381		9,745		9,531	
Deregulation Pension Deficit	1,356		1,307		1,307		1,307	
TFWM Policies								
Child Concessions	9,609	7.9%	9,538	8.2%	9,634	8.4%	9,652	8.4%
Subsidised Services	8,588	7.1%	9,086	7.8%	9,100	7.9%	9,100	7.9%
Accessible Transport	7,369	6.1%	7,169	6.2%	7,171	6.2%	7,172	6.2%
Passenger Information	5,531	4.6%	5,790	5.0%	5,891	5.1%	5,986	5.2%
Rail and Metro Concession	4,409	3.6%	4,456	3.8%	4,769	4.1%	4,962	4.3%
Bus Services	4,213	3.5%	4,542	3.9%	4,633	4.0%	4,726	4.1%
Rail Services	3,025	2.5%	3,460	2.9%	3,522	3.1%	3,586	3.1%
Strategic Development	1,771	1.5%	2,040	1.8%	2,075	1.8%	2,105	1.8%
Safety and Security	924	0.8%	845	0.7%	1,161	1.0%	1,169	1.0%
Sustainable Travel	60	0.0%	253	0.2%	259	0.2%	265	0.2%
Network Resilience		37.4%	572	0.5%		41.0%		42.1%
Other								
Business Services	4,049	3.3%	3,031		3,199	2.8%	3,253	2.8%
Elected Members	304	0.2%	304		305	0.3%	309	30.0%
West Midlands Rail	316	0.3%	578		600	0.5%	600	0.5%
Total	121,542	98.8%	115,720	98.90%	115,148	98.6%	115,148	98.6%
Use of Reserves	0		(1,000)		(1,000)		(1,000)	
Proposed Levy	121,542	100.0%	114,720	100.0%	114,148	100.0%	114,148	100.0%

The levy has reduced by £6.8 million from 2017/18 to 2018/19 and after use of £1m of reserves expenditure has reduced by £5.8 million due in the main to the following movements:

- (i) Reduction in Capital Financing which includes the agreed reduction in MRP, along with debt rescheduling, interest/borrowing savings and a reduction in transport development funding
- (ii) Reduction in ENCTS costs due to continued reducing trend on patronage
- (iii) Transition of corporate services
- (iv) Reduction in Child Concessionary costs due to the release of a provision for fare and patronage increases that is no longer required
- (v) Increase in Subsidised Bus Services costs due to a number of funding pressures from network changes and contract price increases.
- (vi) Investment in the extension of the Apprentice Concession
- (vii) Investment into the planning for new stations within the Rail Franchise
- (viii) Investment and expansion of the contact centre
- (ix) Infrastructure maintenance & cleaning cost increases
- (x) Increase in strategic development costs to support the delivery of the Transport ambition
- (xi) Sustainability previously funded by government grant

(xii) Inclusion of Network Resilience costs

Transport for West Midlands Levy

The Transport for West Midlands levy is allocated to each district based upon the latest published population figures. For 2018/19 the proposed levy on each district is as follows:

	Estimated Resident population MID - 2016	%	Proposed Levy Allocation 2018/19
BIRMINGHAM	1,124,569	39.3%	45,031,157
COVENTRY	352,911	12.3%	14,131,628
DUDLEY	317,634	11.1%	12,719,030
SANDWELL	322,712	11.3%	12,922,368
SOLIHULL	211,763	7.4%	8,479,633
WALSALL	278,715	9.7%	11,160,595
WOLVERHAMPTON	256,621	9.0%	10,275,884
TOTAL	2,864,925	100.0%	114,720,295

Proposed West Midlands Combined Authority Operational Budget

The operational budget for 2018/19 – 2020/21 is set out below.

WMCA Operational Forecast	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
ECONOMIC GROWTH	1235.9	1796.6	1700.2	1572.2
HOUSING & LAND	100.0	1148.6	2498.6	2648.6
HEALTH & WELLBEING	230.0	676.9	678.0	690.0
PUBLIC SERVICE REFORM	480.0	758.6	566.7	575.0
SKILLS & PRODUCTIVITY	1945.0	4743.3	4324.1	2661.8
COLLECTIVE INVESTMENT FUND	350.0	-	-	-
TRANSPORT	81.5	-	-	-
LEADERSHIP & SUPPORT	1227.1	2698.2	2754.3	2811.7
TOTAL EXPENDITURE	5,649.5	11,822.2	12,521.9	10,959.3

Projects and workstreams that will be delivered in 2018/19:

Economic Growth will deliver:

- Development of the **Local Industrial Strategy**
- **WMCA Performance Management Framework** in line with the Local Industrial Strategy
- **Funding for Growth Programme**
- **Economic growth evaluation** via the Dynamic Economic Investment Model
- Investment in the **West Midlands Growth Company**
- **The Cultural Investment Inquiry**
- **Culture & Tourism pilots** via the West Midlands Growth Company
- **Film and Convergent Media Development**
- **Office of Data Analytics**

Housing and Land will deliver:

- Development and maintenance of a **Prioritised Site Pipeline**
- Development of a **Spatial Investment and Delivery Plan**
- The **Housing Deal**
- Development and implementation of **Development Briefs/Programmes for Strategic Investment Opportunities with relevant councils**

Health & Wellbeing will deliver:

- The **Supporting People into Work** workstream
- The providing **safe and stable places to live** workstream
- The **Mental Health and Criminal Justice** workstream
- Project work to get the **community involved** and **work with other cities and regions** to develop **approaches to mental health care**
- The **MoveWM Programme** focussing on building movement and physical activity into transport, housing and land
- **Workplace Wellbeing Physical Activity offer** pilot scheme with SMEs to explore how to develop less sedentary workplaces

- Wellbeing pilots including **Healthy Active Streets & a pilot wellbeing programme in schools**

Public Service Reform will deliver:

- A **Public Value Framework** as set out in the Barber review
- Engagement with **government**
- Development of approaches to **social care, education and collaborative savings**

Skills & Productivity will deliver:

- **Productivity and Skills Strategy and Delivery Plan**
- Sector Skills Strategies for **Automotive, Construction and Digital**
- Development of **Skills Advisory Panels**
- Development of **Career Learning Pilots**
- Development of **Employment Support Framework Agreement**
- Development of **Support to Return to Work Framework Agreement**
- Working with the Department for Education to influence **Adult Education Budget funded provision in the West Midlands region** during the 2018/19 academic year
- The employment and skills aspects of the **HS2 Growth Strategy**
- Delivery of a comprehensive **construction skills programme**
- Delivery of a comprehensive **careers strategy** and collaborative work with Further Education colleges to support readiness to deliver including employer engagement, teacher CPD and development of workplace opportunities

APPENDIX 3 : Transport Capital Programme

PROGRAMME	PROJECT DETAILS	FORECAST SPEND			Grand Total
		2018 / 19	2019 / 20	2020 / 21	
HS2 Connectivity Programme (METRO)	Metro Centenary Square Extension	18,972,997	13,142,601		32,115,598
	Metro Edgbaston Extension	9,794,086	24,255,911	24,861,657	58,911,654
	Metro Wolverhampton City Centre Extension	1,495,966	14,084,010	4,225,203	19,805,179
HS2 Connectivity Programme (SPRINT)	SPRINT - Hagley Road	2,434,522	1,255,199	8,530,482	12,220,203
	SPRINT - A45	6,583,520	14,700,000	11,700,000	32,983,520
	SPRINT - Longbridge to Birmingham	299,498	4,100,000	5,200,000	9,599,498
	SPRINT - A34 Walsall to Birmingham	1,299,105	2,400,000	4,300,000	7,999,105
	SPRINT - Hagley Road Phase 2 and Halesowen	6,772,187	7,400,000	17,000,000	31,172,187
	SPRINT - Dudley to Birmingham	700,000	2,900,000	5,500,000	9,100,000
	SPRINT - Hall Green to Interchange via Solihull	100,000	100,000	100,000	300,000
	SPRINT - Sutton Coldfield to Birmingham via Langley	1,798,187	2,000,000	7,500,000	11,298,187
	HS2 Connectivity Programme (RAIL)	Rail - Camp Hill Line Local Enhancements			2,453,000
Bordesley Chords		4,400,000	6,200,000	10,100,000	20,700,000
Water Orton				5,000,000	5,000,000
Water Orton Local Enhancements			1,900,000	3,600,000	5,500,000
Snow Hill Lines		700,000	1,200,000	1,100,000	3,000,000
Sutton Coldfield Interchange and City Link		179,000	600,000	1,800,000	2,579,000
Walsall to Wolverhampton Local Enhancements		1,500,000	7,000,000	9,000,000	17,500,000
Stourbridge to Round Oak Line Canal St Station		1,500,000	8,000,000	10,000,000	19,500,000
Metro Birmingham Eastside Extension	Metro Birmingham Eastside Extension	21,046,000	40,999,999	31,916,822	93,962,821
Metro East Birmingham to Solihull Extension	Metro East Birmingham to Solihull Extension	3,585,579	6,014,544	17,000,004	26,600,127
Metro Wednesbury to Brierley Hill Extension	Metro Wednesbury to Brierley Hill Extension	13,680,398	12,597,589	38,884,963	65,162,950
SUB TOTAL - TFWM INVESTMENT PROGRAMME SCHEMES		96,841,045	170,849,852	219,772,131	487,463,028
Asset Renewal and Replacement	Network Wide Bus Station Refurbishment Phase 1	205,131			205,131
	Asset Management Replacement and Renewal Programme	1,074,675	1,200,000	1,200,000	3,474,675
Metro Minor Works	Park & Ride Delivery (Metro)			2,270,530	2,270,530
Project Development	Perry Barr Station and Interchange Development	303,686			303,686
	Dudley Bus Station Development	200,000	100,000		300,000
	Tipton Park & Ride	39,171			39,171
	Snow Hill 3rd Access	1,000,000	800,000		1,800,000
	Bus Lane Review	50,000			50,000
	Generic Project Development	303,886			303,886
Rail Minor Works	Park & Ride Delivery (Rail)		1,500,000		1,500,000
	Longbridge Connectivity Package	816,035			816,035
Bus Minor Works	Transforming Bus Travel Programme	500,000			500,000
Key Route Network	Improvements to the Key Route Network Programme (Safety & Congestion)	750,000	1,000,000	1,000,000	2,750,000
Sustainable Travel	MST (SAN01) Smethwick Galton Bridge to Bromford Rd Towpath	428,138			428,138
	MST (WOL01) Wednesfield link to New Cross Hospital	423,000			423,000
	MST (SAN03) Smethwick Bromford Rd to Albion Rd Junction	146,250			146,250
	MST (WOL02) Wolverhampton Dixon Street to Deepfields Junction Bridge	591,463			591,463
	MST (SAN07) Sandwell/Tame Valley Towpath Improvements at Friar Park	452,000			452,000
	MST (DUD04) Coseley/Deepfields Bridge to Factory Jn Towpath improvements	441,000			441,000
	Smethwick/Bromford Lane to Dudley Border	1,273,000			1,273,000
	Network Wide Cycling Programme	125,000			125,000
	Snow Hill 3rd Access	150,000			150,000
Snow Hill Public Realm	150,000			150,000	
Ticketing	Network Wide Swift Procurement	24,000			24,000
SUB TOTAL - OTHER PROGRAMMES		9,446,435	4,600,000	4,470,530	18,516,965
GRAND TOTAL		106,287,479	175,449,852	224,242,661	505,979,993

APPENDIX 4 : WMCA Contributions to Externally Delivered Investment Programme Schemes

PROGRAMME	PROJECT DETAILS	FORECAST PROJECT SPEND (£)					Grand Total £
		2017 / 18	2018 / 19	2019 / 20	2020 / 21	2021 / 22	
Coventry Regeneration	Coventry City Centre South	5,990,047	8,184,196	8,096,033	37,974,335	38,180,051	98,424,662
	Friargate	200,000	49,317,000	385,000	406,000	429,000	50,737,000
Solihull	Infrastructure	3,544,620	10,683,970	25,867,500	56,720,070	41,388,000	138,204,160
	Interchange	1,702,137	18,207,890	6,613,290	2,303,327	1,343,390	30,170,033
Coventry UKC	City Centre First	-	5,895,000	24,897,000	16,397,000	3,811,000	51,000,000
	UKC North	80,000	1,290,000	1,375,000	1,116,000	8,666,000	12,527,000
	Coventry South	266,000	5,547,000	13,841,000	16,115,000	26,241,000	62,010,000
	Coventry VLR	-	5,761,000	5,696,000	436,000	137,000	12,030,000
Business Innovation	Business Innovation	-	1,075,000	3,300,000	11,375,000	12,875,000	28,625,000
TOTAL		11,782,804	105,961,056	90,070,823	142,842,732	133,070,441	483,727,855

Treasury Management Strategy 2018 / 2019**1 Introduction**

- 1.1. The West Midlands Combined Authority have adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the West Midlands Combined Authority to approve a treasury management strategy before the start of each financial year. In addition, in 2010 the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments that requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the West Midlands Combined Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.
- 1.2. Treasury Management is undertaken by a small team of professionally qualified staff within Corporate Services. The needs of the West Midlands Combined Authority's treasury management staff for training in investment management are assessed regularly as part of the staff appraisal process and additionally when the responsibilities of individual members of staff change.
- 1.3. West Midlands Combined Authority are supported by professional advisors Arlingclose Limited in order to ensure that up to date market advice and information on the most appropriate investment / borrowing options is obtained. This arrangement is jointly funded between West Midlands Combined Authority and Coventry City Council who also use Arlingclose. During 2017/18 the West Midlands Combined Authority invested its surplus cash with UK Banks, UK Building Societies, selected Money Market Funds, the UK Debt Management Office and other Local Authorities.

2 Treasury Management Strategy

- 2.1. The Prudential Code requires the West Midlands Combined Authority to set a number of prudential indicators to ensure the West Midlands Combined Authority's investment plans are affordable, prudent and sustainable. The details of the Prudential Indicators are covered in Appendix 6.

3 Economic Context

- 3.1. The major external influence on the West Midlands Combined Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty may impact on growth. Transitional arrangements may taper this effect but may also extend the period of uncertainty. Economic growth is therefore forecast to remain low throughout 2018/19.
- 3.2. Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

- 3.3. High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Struggling economies and fines for pre-crisis banking practices continue to weigh on bank profits and any future economic slowdown will exacerbate concerns in this regard.
- 3.4. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union. In addition, the largest UK banks will ring-fence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.
- 3.5. The West Midlands Combined Authority's treasury advisors central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

4 Borrowing Strategy

- 4.1. As at 31st December 2017, the West Midlands Combined Authority debt position (including £8.5 million debt administered by Dudley Metropolitan Borough) is £160 million. The gross additional capital borrowing requirement in 2017/18 is estimated to be £256 million, influenced by the delivery of the £8 billion Investment Programme agreed as part of the first Devolution Deal.
- 4.2. The West Midlands Combined Authority is currently in an under borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external debt as available cash has been used as a temporary measure. The strategy will be to borrow in order to maintain the liquidity of the West Midlands Combined Authority and will need careful management as payments required to fund the Investment Programme increase in magnitude. The timing of the borrowing will be influenced by cash flow requirements and future forecast developments on interest rate movements. A mixture of shorter and longer term loans will be taken out to fit with the West Midlands Combined Authority's debt maturity profile.
- 4.3. Whilst the West Midlands Combined Authority has previously raised the majority of its long-term borrowing from Public Works Loans Board (PWLB), it continues to investigate other sources of finance. The main borrowing sources likely to be used by the West Midlands Combined Authority are:
 - PWLB and its successor body, both of which are, in effect, the UK government.
 - Other Local Authorities, particularly as a source of short term borrowing.
 - EIB where discussions are continuing regarding a loan facility for the West Midlands Combined Authority which could be more cost effective than PWLB.
 - UK Municipal Bonds Agency plc, which was established in 2014 by the Local Government Association and will be offering loans to Local Authorities.

- 4.4. As reported to the WMCA Board on 12 January 2018, the West Midlands Combined Authority currently have powers to borrow for Transport investment only. West Midlands Combined Authority are currently working with HM Treasury and the Ministry of Housing, Communities and Local Government (MHCLG) to acquire powers for West Midlands Combined Authority to borrow for all of its functions. It is expected that these powers will be in place from April 2018. This will enable West Midlands Combined Authority to undertake the borrowing for the wider Investment Programme including Land Remediation and Collective Investment Funds, the borrowing for which is currently being undertaken by other constituent Local Authorities on WMCA's behalf. As a part of the process to acquire powers, West Midlands Combined Authority are agreeing a suitable borrowing ceiling with HM Treasury which West Midlands Combined Authority will operate within. The agreement is required to protect HM Treasury from fiscal shocks in managing the UK deficit and as such, the ceiling effectively caps West Midlands Combined Authority's total external debt at an agreed level.
- 4.5. The calculation of the cap is being informed by the debt finance requirement for all projected West Midlands Combined Authority Investment Programme / capital spend, in addition to any finance rescheduling planned and a degree of headroom as agreed with HM Treasury.
- 4.6. On 12 January 2018, the West Midlands Combined Authority Board approved that it could enter into a debt cap arrangement with HM Treasury at the following level:
- 2018 / 2019 £486 Million
 - 2019 / 2020 £662 Million
 - 2020 / 2021 £867 Million
- 4.7. HM Treasury are yet to formally notify West Midlands Combined Authority of the final agreed debt cap value but in the event the agreement exceeds the above values, West Midlands Combined Authority will continue to operate at the lower, West Midlands Combined Authority approved level until there is an operational requirement to increase the cap; at which point, additional local approvals will be sought. Further details regarding the operational and authorised debt limits are included in the Summary of Prudential Indicators section of this report. It is possible that the West Midlands Combined Authority will borrow some of its emerging borrowing on a short term or variable rate basis to take advantage of current low short term rates. This strategy and its implementation will remain flexible to adapt to changing risks and circumstances. The strategy will be kept under review by the Section 151 Officer to the West Midlands Combined Authority and reported through regular monitoring reports.

- 4.8. The West Midlands Combined Authority has some flexibility to borrow funds in year for use in future years. The Section 151 Officer to West Midlands Combined Authority may do this under delegated power where this is economically beneficial. West Midlands Combined Authority will adopt a cautious approach to any such borrowing required to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisals in advance and subsequent reporting through the mid-year or annual reporting. PWLB and other lenders may allow existing loans to be repaid before maturity by either paying a premium or receiving a discount, according to current interest rates. Whilst the West Midlands Combined Authority may take advantage of this where this is expected to lead to an overall cost saving or a reduction in risk, in the current climate the premium for early redemption generally makes this too expensive to undertake.
- 4.9. It should be noted that the updated the Prudential code for Capital Finance in Local Authorities 2017 and Treasury Management in the Public Services Code of Practice Cross-Sectoral Guidance Notes were issued in December 2017. Both of these codes will be effective for the 2018/19 financial year. It is recognised by CIPFA however, that the requirement included in the Prudential Code to produce a Capital Strategy may require a longer lead-in period. Whilst the CIPFA Treasury and Capital Management Panel recognises that this requirement may not be able to be fully implemented until 2019/20 financial year, WMCA intend to publish a Capital Strategy during 2018/19 to supplement the Treasury Management Strategy.

5 Investment Strategy

- 5.1. The West Midlands Combined Authority's Investment Strategy has been drawn up having regard to both the MHCLG Guidance on Local Authorities Investments and the CIPFA Treasury Management in Public Services Code of Practice and CIPFA Cross-Sectoral Guidance Notes. This strategy will be revised and presented to West Midlands Combined Authority Board if changes occur outside those envisaged within this strategy. The policy objective for the West Midlands Combined Authority is the prudent investment of its cash balances. The investment priorities are firstly the security of capital (protecting sums from capital loss) and secondly the liquidity of investments (ensuring cash is available when required). Only when these two priorities are met will the third, of achieving the optimum return on investments, be taken into account. The West Midlands Combined Authority will not borrow money purely to invest and will only borrow up to 12 months in advance of cash being required to fund its capital expenditure and the amount borrowed will not exceed the annual borrowing requirement. The investments, which the West Midlands Combined Authority is able to use for the prudent management of cash balances are categorised as 'Specified Investments' and 'Non-Specified Investments'.

- 5.2. A Specified Investment offers high security and high liquidity, must be in sterling and have a maturity date of less than a year. Any Specified Investment must be with the United Kingdom Government, a local authority in England or Wales or a similar body in Scotland or Northern Ireland, a parish or community council, a money market fund, a bank which is part-owned by the UK Government, or with a body of high credit quality. Counterparties who achieve ratings with all three rating agencies (Fitch, Moody's and Standard and Poors) may be considered for investments providing they meet the minimum 'credit quality' requirement. For the purposes of the investment types detailed above, West Midlands Combined Authority defines high credit quality as obtaining a rating of BBB- or above and will tailor its investments based on the credit quality as follows:

WMCA Counterparty Limits

Credit Rating of Institution or Product *	Bank / Building Society		UK Government	Corporates
	Unsecured	Secured		
AAA	£20m Per Counter-party (1 Year Max) **	£20m Per Counter-party (3 Years Max) **	£ Unlimited 50Yrs Max	£10m (2 Yrs)
AA+				£5m (1 Yr)
AA				£1m (1 Yr)
AA-				
A+				
A				
A-				£4m 100 Days
BBB+	£1m (Call Only)			
BBB or BBB-	£20m Per Fund			
Pooled Funds & MMF (Min AA+)	£1m (6 months)			
None / Unrated				

* The table shows the minimum requirement across all three ratings agencies, based on the Standard and Poors rating or equivalent.

** Normal operating levels will not exceed £10m but adequate headroom has been provided to accommodate potential peak cash-flow requirements. The Combined Authority will look to keep an even spread of investments across counter parties to minimise exposure to defaults.

- 5.3. To ensure that the West Midlands Combined Authority reserves are not exposed in the case of a single default, deposits will be placed in secured investments where possible. All investments will be managed within the parameters detailed below.

	Cash Limit
Any group or organisations under the same ownership	£20m Per Group
Negotiable instruments held in a brokers nominee / custody account	£20m Per Broker
Investments with Banks / Building Societies (Sector Limit)	£80m in Total
Money Market Funds (Sector Limit)	£80m in Total
Unrated Banks / Building Societies (Sector Limit)	£5m in Total

- 5.4. Non Specified Investments have a range of vehicles not covered by the definition of Specified Investments, which are set out in the Treasury Management Practices and generally carry more risk. The only non-specified investments the West Midlands Combined Authority may enter into to or hold during the financial year are set out below:

- Equity shares in the municipal bonds agency (Local Capital Finance Company Ltd) only up to £0.075 million will be invested in this category.
 - A routine term deposit with an institution meeting the above counterparty limits, for a period of more than 1 year. This type of investment will be considered when rates are favourable and cash balances allow. The Combined Authority's prudential indicators allow no more than £10 million to be invested in this category.
 - Unrated investments in recognised financial institutions such as Challenger Banks or Building Societies. WMCA will adopt a very cautious approach to such investments in close consultation with its Treasury Advisor Arlingclose Ltd. These types of investments will be capped at £1 million per counter party (£5 million total portfolio value) and not exceed 6 months in duration.
- 5.5. The credit ratings of Fitch, Moodys and Standard and Poors are monitored at least weekly, ratings watches and downgrades are acted upon immediately. Any other information that is deemed relevant to the creditworthiness of any Counterparty will be acted upon, in line with the Code. The Combined Authority may hold cash within its current account overnight as a transactional control to mitigate the risk of going overdrawn and incurring penalty and interest charges. On limited occasions the Combined Authority may also leave funds in this account when it is impractical and/or not economically feasible to invest elsewhere. These balances are considered as cash or cash equivalents and not investments. The Combined Authority will aim to have not less than 50% of its investments returnable within 28 days with at least 20% within 7 days.

Statement of Prudential Indicators

1 Introduction

- 1.1. The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003. Local Authorities are no longer subject to government controlled borrowing approvals and are free to determine their own level of capital investment controlled by self-regulation. Central Government does however, for national economic reasons retain a reserve power to set a national limit on the increase in borrowing.
- 1.2. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the West Midlands Combined Authority should operate to ensure the objectives of the Prudential Code are met.

2 Prudential Indicators

- 2.1. The Prudential Indicators for which the West Midlands Combined Authority is required to set limits are as follows:

Gross Debt and the Capital Financing Requirement

- 2.2. This Prudential Indicator provides an overarching requirement that all the indicators operate within and is described in the Prudential Code as follows:

"In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. This is a key indicator of prudence. This prudential indicator will be referred to as net debt and the capital financing requirement. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy."

- 2.3. The Combined Authority had no difficulty meeting this requirement for 2017/18, nor are any difficulties envisaged for the current or future years. This view takes into account all plans and commitments included in the 2018/19 budget policy.

3 Capital Expenditure

- 3.1. The estimates of capital expenditure to be incurred for the current and future years are as follows:

£ Million	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	Total Forecast
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£ Million	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	Total Forecast
WMCA Directly Delivered Transport Capital Programmes Inc. Investment Programme	77.2	106.3	175.4	224.2	583.2
WMCA Other directly incurred Capital Including Collective Investment Fund and Land Remediation Fund.	0.0	86.2	37.2	30.0	153.4
Externally Delivered Investment Programme Schemes Funded by WMCA	11.8	106.0	90.1	142.8	350.7
TOTAL	89.0	298.4	302.8	397.1	1,087.3

4 Ratio of Financing Costs to Net Revenue Stream

- 4.1. Financing Costs include the amount of interest payable in respect of borrowing or other long term liabilities and the amount the West Midlands Combined Authority is required to set aside to repay debt, less interest and investments income.
- 4.2. The actual Net Revenue Stream is the total of Transport Levy and projected Devolution Deal Investment Programme revenue streams.
- 4.3. The increasing ratio of Net Financing costs to Net Revenue is driven by the nature of the Investment Programme delivery whereby borrowing in the early part of the programme is supported by long term revenues.
- 4.4. The estimates of the ratio of financing costs to net revenue stream are as follows:

£ Million	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
Net Financing Costs	9.7	13.1	19.2	24.8
Revenue Stream	161.2	172.9	178.0	177.5
Percentage	6.0%	7.6%	10.8%	14.0%

5 Capital Financing Requirement

- 5.1. The capital financing requirement is a measure of the extent to which the West Midlands Combined Authority needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. West Midlands Combined Authority has an integrated treasury management strategy where there is no distinction between revenue and capital cash flows and the day-to-day position of external borrowing and investments can change constantly. The capital financing requirement concerns only those transactions arising from capital spending, whereas the amount of external borrowing is a consequence of all revenue and capital cash transactions combined together following recommended treasury management practice.
- 5.2. The estimates of the end of year capital financing requirement are as follows:

£ Million	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
Capital Financing Requirement as at 31 st March	251.6	507.0	683.4	903.9

6 Operational Boundary

- 6.1. The Operational Boundary represents an estimate of the most likely, prudent, but not worst case scenario and provides a parameter against which day-to-day treasury management activity can be monitored.
- 6.2. Procedures are in place to monitor the Operational Boundary on a daily basis, and sufficient authorisation is in place to take whatever action is necessary to ensure that, in line with the Treasury Management Strategy, the cash flows of the West Midlands Combined Authority are managed prudently.
- 6.3. It is possible that occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit below) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together.
- 6.4. Both the Authorised Limit and the Operational Boundary include an element relating to debt restructuring where, for the short term only, external borrowing may be made in advance of the repayment of loans. In this circumstance External Borrowing is increased temporarily until the replaced loans are repaid. The converse can also apply where loans are repaid in advance of borrowings.
- 6.5. It should be noted that both the Operational and Authorised Limits will not exceed the West Midlands Combined Authority Board approved HM Treasury debt cap agreed by West Midlands Combined Authority Board on 12 January 2018. HM Treasury are still to formally confirm the exact debt cap values but in the event the final values exceed the West Midlands Combined Authority Board approval, the lower West Midlands Combined Authority approved limits will prevail until such time that operationally, the limit needs to increase. It is at this point, additional local approvals will be sought accordingly.
- 6.6. The following limits for each year's Operational Boundary, excluding temporary investments are recommended and are shown below in the context of the HM Treasury debt cap where the lower HM Treasury value will apply for 2020/21:

£ Million	2017/18	2018/19	2019/20	2020/21
Operational Boundary	205.1	460.2	636.3	856.4
WMCA Approved HM Treasury Debt Cap	N/A	486.6	662.9	867.3

7 Authorised Limit

- 7.1. The Authorised Limit represents an upper limit of borrowing that could be afforded in the short term but may not be sustainable. This limit includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary
- 7.2. The Board should note that the Authorised Limit represents the limit specified in section 3 (1) of the Local Government Act 2003 (Duty to determine affordable borrowing limit).

- 7.3. The following Authorised Limits for external debt, excluding temporary investments are recommended and are shown in the context of the range of Debt cap values being discussed with HMT. To clarify, the Combined Authority will operate within the agreed West Midlands Combined Authority Board values (£486.6 million 2018/19, £662.9 million 2018/19 and £867.3 million 2019/20) unless additional local approvals are required and sought:

£ Million	2017/18	2018/19	2019/20	2020/21
Authorised Limit	205.1	547.0	783.0	1,042.0
WMCA Approved HM Treasury Debt Cap	N/A	486.6	662.9	867.3
Upper Level HM Treasury Debt Cap	N/A	547.0	783.3	1,042.0

8 Actual External Debt

- 8.1. The West Midlands Combined Authority's actual external debt as at 31 December 2017 was £160 million.

9 Fixed Interest Rate Exposures

- 9.1. It is recommended that the West Midlands Combined Authority sets an upper limit on its fixed interest rate exposures as follows.

Upper limits for net principal sums outstanding at fixed rates

£ Million	2017/18	2018/19	2019/20	2020/21
Net Principle Sums Outstanding at Fixed Rates	205.1	486.6	662.9	867.3

- 9.2. This represents the position that all of the West Midlands Combined Authority's authorised external borrowing may be at a fixed rate at any one time.

10 Variable Interest Rate Exposures

- 10.1. It is recommended that the West Midlands Combined Authority sets an upper limit on its variable interest rate exposures as follows.

Upper limits for net principal sums outstanding at variable rates:

£ Million	2017/18	2018/19	2019/20	2020/21
Net Principle Sums Outstanding at Variable Rates	61.5	146.0	198.9	260.2

- 10.2. This is the maximum external borrowing judged prudent by the Section 151 Officer that the council should expose to variable rates.

11 Maturity Structure of Borrowing

- 11.1. It is recommended that the West Midlands Combined Authority sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

Period of Maturity	Upper Limit	Lower Limit
Under 12 Months	25%	0%
Over 12 Months and Under 24 Months	25%	0%
Over 24 Months and Under 5 Years	50%	0%
Over 5 Years and Under 10 Years	75%	0%
10 Years and Above	100%	25%

12 Investments For Longer Than 364 Days

12.1. It is recommended that the West Midlands Combined Authority sets an upper limit of total principal sums invested for periods longer than 364 days of £10 million for 2018/19, 2019/20 and 2020/21.

13 Annual Minimum Revenue Provision (MRP) Statement

13.1. The West Midlands Combined Authority is required to provide for the repayment of long term capital programme borrowing through a revenue charge (the Minimum Revenue Provision or MRP). Capital Finance Regulations require the approval of an MRP Statement setting out the West Midlands Combined Authority's approach.

13.2. On 10 November 2017, West Midlands Combined Authority Board approved an adjustment to the MRP policy. This adjustment effectively identified that historic MRP calculations constituted an over-payment of MRP which could form a part of the 2018/19 assessment, resulting in a lower MRP charge over the short to medium term. WMCA intend to charge MRP as detailed below but will offset the previous year's over-payments in arriving at the calculation. It should be noted that the revision to the MRP agreed in November 2017 does not affect the ultimate end date at which the capital expenditure is intended to be repaid.

13.3. The West Midlands Combined Authority MRP statement:

- “For capital expenditure incurred before 1st April 2009 MRP broadly based as being 2% of the underlying Capital Financing Requirement charged on an annuity basis.
- From 1 April 2009 for all capital expenditure met from unsupported or prudential borrowing, MRP will be based on the estimated life of the asset or a depreciation calculation charged on an annuity basis.”
- MRP will commence in the year after the scheme becomes operational.

13.4. In order to ensure that MRP remains prudent the following conditions were added to the new policy, and approved November 2017:

- The total MRP after applying this new adjustment will not be less than zero in any financial year; this serves to freeze the cumulative total of MRP at the 2016/17 level until such time as this sum matches the cumulative total of MRP calculated using the annuity method from 1 April 2009. This condition will ensure that there is no claw back of MRP from previous financial years, i.e. there will be no “negative MRP”.
- The cumulative total of this new adjustment will never exceed the amount of the calculated over-prudent sum.
- The use of the adjustment will be reviewed on an annual basis when drafting the annual Treasury Management Strategy and MRP Policy (or more frequently if there is a mid-year revision for any reason, including the prudence of the adjustment itself). It may therefore be the case that the cumulative total of the new adjustment will never reach the level of the calculated over-prudent sum of around £31 million, i.e. if at any point it ceases to appear prudent to continue it.

13.5. CLG opened a consultation on changes to the prudential framework of capital finance which closed in December 2017. Whilst the consultation included proposals relating to the calculation of MRP charges, only minor implications are expected in terms of the impact of these changes on West Midlands Combined Authority. The policy will be amended accordingly, however, depending on the outcome of the consultation.



Report of the Overview & Scrutiny Committee to the WMCA Board

Date	9 February 2018
Report title	Findings of the Overview & Scrutiny Committee in relation to the WMCA Draft Budget and Mayoral Council Tax Precept for 2018/19
Portfolio Lead	Andy Street – Mayor of the West Midlands Councillor Izzi Seccombe – Finance & Investments
Accountable Chief Executive	Deborah Cadman, West Midlands Combined Authority email: deborah.cadman@wmca.org.uk tel: (0121) 214 7200
Accountable Employee	Sarah Sprung email: sarah_sprung@sandwell.gov.uk tel: 07824 694220
Report to be/has been considered by	Overview & Scrutiny Committee – 30 January 2018

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

1. Commence budget discussions with Constituent Authorities much earlier in future financial years to allow sufficient time for open discussion and development of proposals, it is suggested that these discussions commence in September of each year;

2. Ensure that papers and documentation in relation to the Funding for Growth Programme be made public (unless a relevant exemption applies) and that the timeline for exploring different fiscal options be explicit.
3. Conduct a lessons learned exercise, with the engagement of overview and scrutiny, the Mayor, Cabinet, Chief Execs and Finance Directors, to fully assess how the budget process as a whole can be improved upon in future years;
4. Ensure that each constituent authority assesses the robustness of their Council Tax Support Schemes to ensure that those members of the community most affected by increases in council tax are supported;
5. Determine the wider impact of the loss of European funding and Brexit across the region (including rates of borrowing, project costs and trade) in order to assess the true effect of the loss and to start to look at possible alternative funding options to minimise impact on the local economy;
6. Undertake a governance review of elected member involvement and engagement in CA governance and activity to ensure that the historical mix of transport functions and new CA functions have equality in representation and support;
7. Further consider the resources allocated to overview and scrutiny.

1.0 Purpose

- 1.1 Following meetings of the Budget Task and Finish Group (15 January), Mayors Question Time (24 January) and a meeting of the Overview and Scrutiny Committee (30 January), robust consideration has been given to the draft budget proposals as presented to the Combined Authority Board on 12 January 2018.
- 1.2 This report details the findings of the scrutiny process together with recommendations for the Board to consider both in terms of this year's budget and suggestions for ways in which the process as a whole could be improved for next financial year.

2.0 Background

- 2.1 The Combined Authority Board considered the draft budget on 12 January 2018. At this meeting the Board were minded not to support the Mayors proposed precept which created a level of uncertainty around how the budget would proceed. Other elements of the budget were approved for consultation.
- 2.2 The Overview and Scrutiny Committee held the first Question Time with the Mayor on 24 January 2018 and were able to probe further as to how the Mayor planned to take forward discussion on the Mayoral Precept as well as scrutinise other elements of the budget.
- 2.3 The Overview and Scrutiny Committee met on 30 January 2018 to further consider its findings and recommendations to put forward to the Combined Authority Board.

3.0 Wider WMCA Implications

- 3.1 The Combined Authority's budget is paramount to delivery of its strategic objectives. Effective scrutiny of the budget enables accountability and transparency of this process.

4.0 Progress, options, discussion, etc.

- 4.1 The headings below follow the main questioning themes at the Question Time with the Mayor, held on 24 January 2018.

Mayoral Budget and Precept

- 4.2 The current situation where the CA Board refused to agree the proposed Mayoral Budget does not resonate with the level of partnership and collaboration required for the Combined Authority to achieve its strategic objectives.
- 4.3 During Question Time with the Mayor the Scrutiny Committee attempted to understand the process, dialog and discussions that had taken place between the Mayor and the Constituent Authorities in developing the budget proposals, this was in order to determine whether the process had sufficiently allowed all parties to influence outcomes.

- 4.4 The Mayor advised that discussions with officers had taken place through October, November and December (following the appointment of the Finance Director) culminating in meetings through December that included the Leaders (although not all had attended). The Mayor indicated that up until publication of the budget report, prior to the 12 January 2018 CA Board meeting, no issues with proposals had been put forward.
- 4.5 The Overview and Scrutiny Committee considered that commencing dialog in December for a budget to be published in draft form in January did not present sufficient time to ensure that all relevant parties could actively participate and influence proposals. It is the view of the Scrutiny Committee that future financial year's budget discussions should commence in September allowing for a longer period to develop proposals in the spirit of collaboration and partnership.
- 4.6 The Scrutiny Committee also considered that the budget process would have been aided by the findings of the Funding for Growth Programme. When the Programme was established by the CA Board on 12 July 2017 it was intended that: -
- “The programme is to be convened during July 2017, with initial recommendations targeted to be delivered by the end of 2017, to inform 2018 budgeting.”
- 4.7 The Committee requested further details from the Mayor's Office on progress that the Funding for Growth Programme had made since its establishment in July 2017 including its full membership, dates and times of meetings together with briefings considered and records of decisions made.
- 4.8 The information on the Funding for Growth Programme was received four minutes prior to the Committees meeting to develop its recommendations to the CA Board (30 January). Members were disappointed with the lateness of this information as there was not sufficient time to digest the content to assess how it may affect any recommendations it wished to put forward.
- 4.9 However, after analysing the information provided members felt that there was sufficient evidence to support that none of the potential revenue streams, that could cover the Mayoral office, could commence in time to set the 18/19 Budget. In addition, attendance for Funding for Growth Programme meetings demonstrated that the Mayor considered this to be important work, attending every meeting.
- 4.10 The Scrutiny Committee felt that in future papers and documentation in relation to the Funding for Growth Programme should be made public (unless a relevant exemption applies) and that the timeline for exploring different fiscal options should be explicit – with the understanding that some elements may require Parliament to grant powers which is difficult to plan for.
- 4.11 The Committee felt that it was logical for the public to assume that the Mayoral Precept would cover the costs of the Mayoral Office but that, in the interests of clarity and democracy, it should be made explicit exactly what will be funded and what outcomes will be achieved.

- 4.12 Members also considered that the lack of a precept may result in clawback of the gainshare revenue from HM Treasury – and that should the budget pass without a precept the Audit and Risk Assurance Committee consider this risk.
- 4.13 Furthermore, should a Budget pass which has the Resilience Team funded by the Transport Levy, the CA Board should have absolute clarity on the consequences of that action. Any cuts to Ring and Ride would have equalities implications that would require full assessment and scrutiny.
- 4.14 Equally, before passing a budget without the element of a Mayoral Precept, the CA Board would need to understand the full impact of such a decision on the medium-term investment programme. Should such a situation arise the Overview and Scrutiny Committee would want to consider and comment on the impact report.
- 4.15 Members were concerned at the cumulative impact of council tax rises, which include additional elements for adult social care together with the mayoral precept. The Committee questioned whether individual authorities had considered if their Council Tax Support Schemes are able to protect people most affected by these increases in their communities.
- 4.16 Members felt that the budget process the Combined Authority had undertaken this year had significant lessons that could be learned, in terms of development, consultation and engagement. It was felt that the Overview and Scrutiny Function should have the opportunity to have significant input into this process to ensure that all elements of the budget process are assessed for improvement. The Committee felt that the lessons learned process should commence as soon as possible with the outcome of the work resulting in a clear timeframe for the 2018/19 budget process that will offer increased collaboration and transparency.

Risks Arising

- 4.17 The Committee considered that risks to the region from Brexit and from the collapse of Wolverhampton based business Carillion could impact significantly on the CA's ability to meet its strategic objectives. Members were pleased to note that steps had been taken to mitigate risks arising from Carillion's collapse but that these measures were being led by Wolverhampton City Council rather than the CA.
- 4.18 In relation to Brexit, members noted that the CA was not in receipt of any direct European funding streams but that European money did underpin some CA schemes. Furthermore, that there was a commitment in place from the British Prosperity Fund to take over this underpinning role.
- 4.19 However, members considered that the wider impact of the loss of European funding needed to be determined in order to assess the true impact across the region and to start to look at possible alternative funding options to minimise impact on the local economy.
- 4.20 It was also noted that Brexit was likely to impact on rates of borrowing, project costs and trade. Members felt that any impact assessment for WMCA needed to be broader than simply replacing EU funding streams.

Equitable Distribution

- 4.21 The Scrutiny Committee were anxious to ensure that in planning its projects the CA ensures a distribution of schemes across the CA area and that the level and impact of investment in each Local Authority area is captured. During the Mayors Question Time the Mayor outlined a number of projects across the footprint of the CA area, agreeing that it was paramount that there was a fair distribution of schemes.
- 4.22 The Scrutiny Committee felt it was important to ensure that the newly appointed management team of the Chief Executive and Directors at the CA retain focus across the whole of the CA area, especially given that there were two significant events that would draw focus to specific areas, the Commonwealth Games in Birmingham and Coventry's success in being awarded City of Culture.

Land & Housing

- 4.23 The Scrutiny Committee noted the huge challenge the CA has ahead in delivering the number of new homes needed across the area. In particular, members expressed the need for social housing to be a priority. Members took the opportunity to question the Mayor on housing, he agreed that a special strategy did need to be developed covering the whole of the CA area (including non-constituent areas) and that the Housing and Land Committee would be putting proposals forward to the CA Board. Members noted that this proposal would contain a breakdown of all forms and types of housing.

Mental Health

- 4.24 The Scrutiny Committee were pleased to note that £8.4 million funding for mental health had been allocated from the Work and Health Unit (DWP and NHS England) for the delivery of an Individual Placement Support national pilot programme.
- 4.25 The programme is a randomised control trial seeking to work with up to 5,500 people currently out of work across the Wolverhampton, Dudley, Sandwell and West Birmingham and South Birmingham areas. Each area has an allocated provider to deliver the intervention through a formal procurement process.
- 4.26 The programme is a 'place then train' approach and formally goes live in early March 2018 with referrals coming from Primary care i.e. GP's, Health Visitors, Physiotherapists. It is seeking to work with people who have low level mental health and or poor physical health. The inclusion criteria also included the fact the individual must have been out of work for at least 28 days.
- 4.27 The pilot runs for 3 years, it is being academically reviewed and linked to sites in Islington and Sheffield. It has oversight and governance from the Work and Health Unit and also has an internal WMCA Mental Health Commission strategic and operational level board process. Funding for the pilot has been allocated through Wolverhampton CCG.
- 4.28 This is ring fenced for the three year programme with the monies being managed through the NHS and allocated to this region alongside the WMCA's own resources.
- 4.29 It is proposed that the Committee's Mental Health Task & Finish Group scrutinise the impact and outcomes of this investment.

Environment

- 4.30 The Scrutiny Committee did have concerns that environment did not have a direct focus within the CA Board portfolio areas, and that given the SEP and the Renewal Plan together the environmental priorities (carbon reduction, air quality, natural environment, brownfield regeneration, green business growth, energy and waste) required direct focus and resource.
- 4.31 During Question Time the Mayor highlighted that Councillor Harley did have responsibility for environment and that this work was being supported by Sustainability West Midlands. He reported that progress was being made with alternative transport schemes but no visible progress had been made with air quality or with waste.

Transport

- 4.32 Whilst the Committee acknowledged that there were some excellent transport developments across the region, given the CA's budgetary pressures Members felt that the £1.8m funds allocated to re-branding maybe better allocated to other budge areas, particularly given the problems in agreeing the Mayoral Precept. Members were advised that this rebranding work had now been estimated at £1m with the remaining £0.8m being allocated to future investment opportunities.
- 4.33 The Scrutiny Committee also considered that, given that transport was an integrated part of CA governance, there was disparity in that no special responsibility allowances were paid for any other committee or function other than the Transport Delivery Committee.
- 4.34 The Mayor was asked if there were plans to review the allowances paid to the Chair and Members of the Transport Delivery Committee, he advised that the Transport Delivery Committee played an important role in ensuring that the delivery and operational outcomes for transport were right.
- 4.35 The Chair of the Transport Delivery Committee attended the Scrutiny Committee meeting on 30 January to advise of the TDC's findings on the transport budget. The Scrutiny Committee shared the TDC's concerns in relation to the future of the Ring and Ride budget.
- 4.36 Members also agreed with TDC findings that a wider review of elected member involvement and engagement in CA governance and activity should be undertaken to ensure that the historical mix of transport functions and new CA functions have equality in representation and support.

Overview and Scrutiny

- 4.37 To achieve accountability and transparency in decision making across the CA it is paramount that Overview and Scrutiny is well resourced. This has been recognised by the Communities and Local Government Parliamentary Select Committee in their inquiry into the effectiveness of Scrutiny, in their report it was stated that they:

“are concerned that effective scrutiny of Metro Mayors will be hindered by under-resourcing and...the Government must make clear that scrutiny is a fundamental part of any deal and that it must be adequately resourced and supported.”

- 4.38 The Mayor acknowledged his support and commitment to scrutiny and agreed to look at the issue of adequate resourcing for the function with the wider CA Board.
- 4.39 Scrutiny of the budget process has been instrumental in identifying future areas of focus for overview and scrutiny. These areas of focus would allow for Scrutiny to fulfil its role in holding to account but also allow for it to add value to the CA and improve transparency in decision making. The points below set out some of these future areas of focus:-
- Scrutiny of the Wednesbury to Brierley Hill Midland Metro Link extension.
 - Scrutiny sessions with individual portfolio leads to focus on specific budget areas.
 - Consideration of CA governance arrangements
 - Consideration of communications outreach to try and encourage greater public engagement with the WMCA.
 - Consideration of how the £8 million dedicated to mental health will be spent and what outcomes, evidence and measurement will be used.
 - Oversight of the arrangements for the Commonwealth Games and Coventry City of Culture.
- 4.40 For scrutiny to maintain its existing work programme, working with each of the commissions plus ongoing budget scrutiny, it is paramount that there are adequate resources for it to deliver. Whilst it is accepted that ideally these central resources for CA running costs would be allocated by Central Government this is not the case. The Committee request that a minimum of two FTE staff be allocated to the function to support members in carrying out this statutory function and that the costs for these posts be met by the CA.
- 4.41 Areas for scrutiny will continue to grow, in the near future the function will have the statutory responsibility for fire scrutiny, then there are the implications of Devo II. The CA scrutiny function has an important role in the transition, and future, of such functions and services. This is not withstanding overview and scrutiny of the increasing number of subsidiary organisations and companies being set up under the umbrella of the CA.

5.0 Financial implications

- 5.1 The Scrutiny Committee request that, in addition to the 1x FTE post within the 2018/19 CA Budget for an overview and scrutiny officer the Board increase this to two posts.

6.0 Legal implications

- 6.1 There are no legal implication arising from the content of this report.

8.0 Schedule of background papers

- 8.1 WMCA Board Budget Report – 12 January 2018.



WMCA Constituent Member Meeting

Date	24 January 2018
Report title	WMCA Budget 2018 – 2019 and WMCA Mayoral Precept 2018 – 2019
Portfolio Lead	WMCA Constituent Members
Accountable Chief Executive	Keith Ireland, City of Wolverhampton Council Email keith.ireland@wolverhampton.gov.uk Tel 01902 554500
Accountable Employee	Keith Ireland, City of Wolverhampton Council Email keith.ireland@wolverhampton.gov.uk Tel 01902 554500
Report to be/has been considered by	Meeting of Leaders held at the City of Wolverhampton on 24 January 2018

Recommendation(s) for action or decision:

The Combined Authority Constituent Members recommend the following:

1. That the proposals outlined in this report (which are presented on the basis of consensus across the Constituent Members) be used as the basis of a revised WMCA Budget for 2018 – 2019.
2. That the following three criteria be used to underpin the revised approach:
 - a) The Mayor's office to absorb any increase in costs i.e.: no council tax precept to fund the Mayor's office.
 - b) Network resilience be funded through the transport levy (This would mean that forecast reductions for each Constituent Council would be less than anticipated in the draft budget).

- c) That no Mayoral precept be set for the year 2018-2019.
3. The Combined Authority Board paper in January 2018 on the budget contained the following areas to be funded from the Mayoral precept:
- a) The Network Resilience and Congestion Reduction.
 - b) Contribution to the Investment Programme.
 - c) The Mayoral Office.

For 2018 – 2019 these will not be funded from a Mayoral precept but will be considered for Mayoral precept in 2019 – 2020.

4. The Combined Authority is minded to support a Mayoral precept in 2019 – 2020 subject to agreement on the detail of the Mayoral precept. This should be a to note recommendation in the revised budget report.
5. That in the 2019-2020 budget cycle preparation the investment in 7a. The Network Resilience and Congestion Reduction be detailed in terms of budget and areas of work the budget will cover, especially how all seven Councils will benefit.
6. That in the 2019-2020 budget cycle preparation the Mayoral precept contribution to the Investment Programme be detailed in terms of budget and commits that the contribution to Investment Programme will be part of the overall WMCA Investment Programme and therefore prioritised and determined by the WMCA Board.
7. That Constituent Members wish to address known structural issues within the WMCA budget and capital programme and would like a task and finish group of Leaders, Chief Executives and Finance Directors, the Mayor and relevant WMCA officers be set up in February 2018 to finish its work by July 2018 to re baseline the WMCA Budget and Investment Programme and create a Medium Term Financial Strategy (MTFS). Leaders and the Mayor to nominate as appropriate if they are not able to attend.
8. That the Constituent Members in consultation with WMCA officers will develop the Terms of Reference for the task and finish group on budgets and MTFS outlined in recommendation 7.
9. This will then feed into the overall budget process to commence in September 2018 for the 2019-2020 budget cycle. The outcome of the task and finish group will be a proposal for a four year Medium Term Financial Strategy (MTFS) covering both revenue and capital (Investment Programme) activity of the WMCA.
10. That the WMCA Board be the body which approves all elements of the Investment Programme.

11. That at each Board meeting where there is an investment decision, a table be shown of all approved investment and where the new proposition would sit in the priority order.
12. That no re-prioritisation takes place outside of the WMCA Board decision making process.
13. That the budget cycle as detailed in section 9 of this report be officially adopted as the way that the WMCA will do business in the future, following the re-baselining of the WMCA revenue and capital budgets (Investment Programme).
14. That WMCA officers in consultation with Directors of Finance prepare a revised report for consultation with Leaders in readiness for a meeting of Constituent Members to be held on 1 February 2018.
15. That legal advisors from each Council be invited to comment on the revised budget report.
16. That the consultation be concluded and agreement reached in time for despatch of the WMCA Board papers on 2 February 2018 (final amendments are envisaged to take place at the meeting on 1 February 2018).
17. That as agreed at the meeting of Constituent Members on 24 January 2018 a meeting be placed in diaries on 1 February 2018 to confirm agreement (or otherwise) of the budget report incorporating the revised proposals.
18. That all issues above be addressed in the Budget report to be recast for distribution as soon as possible.
19. That the Constitution be amended as appropriate to reflect the above recommendations.

The Combined Authority Constituent Members recommend the following for noting:

20. That the Combined Authority through its Constituent Members believe that the requirements of the Constitution are discharged through submission of this report.
21. That the Director of Finance and Monitoring Officer of the Combined Authority were briefed on the outcome of the meeting on the afternoon of 24 January 2018.
22. In recommending a re-baselining of the revenue and capital (Investment Programme) budgets as detailed in recommendations 7 to 12 of this report, projects in the pipeline for approval will not be withheld and are not prevented from being approved. The Task and Finish Group will carry out its work as quickly as possible but by no later than 31 July 2018 (hopefully earlier)

1. Purpose

- 1.1 To propose that a Mayoral precept will not be set for 2018 – 2019.
- 1.2 That the budget report to be considered at the WMCA Board meeting on 9 February 2018 reflects no Mayoral Precept.
- 1.3 To outline a range of issues that the Combined Authority (Constituent Members) would like addressed in the budget paper to be considered at the WMCA Board meeting on 9 February 2018.

2. Background

- 2.1 At its meeting on Friday 12 January 2018 the report in the WMCA Draft budget and Mayoral Council Tax precept was considered. The following recommendation:

“(3) Agrees, as set out in Section 6, that it is minded to approve the Mayor’s budget including a Council Tax Precept of £10.80 that comprises of:

- (a) £2.00 in relation to the costs of the Mayoral Office and Network Resilience responsibilities;
- (b) £8.80 in relation to the funding of the West Midlands Combined Authority Investment Programme to provide funding for cycling, park and ride facilities at key rail stations and Sprint bus priority schemes within the West Midlands Combined Authority’s Investment Programme,

subject to the outcome of the scrutiny process and consultation and objection deadline of 8 February 2018 as set out in Section 6.3 below.”

was amended following a motion put forward by Coventry City Council to add the word **not** in the first line. The recommendation now out to consultation therefore reads:

“(3) Agrees, as set out in Section 6, that it is **not** minded to approve the Mayor’s budget including a Council Tax precept of £10.80 that comprises of:

- (a) £2.00 in relation to the costs of the Mayoral Office and Network Resilience responsibilities;
- (b) £8.80 in relation to the funding of the West Midlands Combined Authority Investment Programme to provide funding for cycling, park and ride facilities at key rail stations and Sprint bus priority schemes within the West Midlands Combined Authority’s Investment Programme,

subject to the outcome of the scrutiny process and consultation and objection deadline of 8 February 2018 as set out in Section 6.3 below.”

3. Impact on the Delivery of the Strategic Transport Plan

- 3.1. The Mayoral Precept would raise money for transport matters. This is much needed resource towards delivery of the WMCA Strategic Transport Plan.
- 3.2. The Constituent Members wish the Network Resilience work to be funded and propose that this be achieved in 2018 – 2019 by reducing the proposed reduction in the Transport Levy for each of the seven Councils. This will be for 2018 – 2019 only.

4. Wider WMCA Implications

- 4.1. The Mayoral Office should in accordance with the Order be funded from Mayoral Precept. If as proposed in this report the budget is not raised from Mayoral Precept an alternative funding source will need to be found. The WMCA officers are asked to make proposals for consideration by the WMCA Constituent Members for how the Mayoral Office will be funded in 2018 – 2019 and details of how the expenditure for the Mayoral Office is made up.
- 4.2. The proposal of the WMCA Constituent Members is to ensure the Mayoral Precept provides transparent funding but does not unduly impact on households to help achieve the growth programmes detailed in the Strategic Economic Plan. At this stage the Constituent Members do not feel able to support the proposed Mayoral precept for 2018 – 2019 to fund the Mayoral Office. This will be re-considered as part of the budget development process to determine a potential mayoral precept in 2019 – 2020.

5. Progress, options, discussion, etc.

- 5.1 The Constituent Members have met to discuss the Mayoral Budget and following discussions wish to recommend to the Mayor that he amends his proposed budget and withdraws the introduction of a mayoral precept for 2018 – 2019.
- 5.2 The current budget proposed raises a precept of £10.80 per Council Tax bill.
- 5.3 Not raising in Mayoral Precept would reduce the burden on hard pressed households in the West Midlands.
- 5.4 The WMCA recommends that the timeframes be amended (which is a combined 10 working days in the Order which created the WMCA), to allow the revised budget at the WMCA Board meeting on Friday 9 February 2018.
- 5.5 Constituent Council Leaders (WMCA) discussed the content of this report on 24 January 2018 and following amendment have formally submitted the proposals to the West Midlands Mayor on 25 January 2018.
- 5.6 The recommendation is now that WMCA officers prepare revised proposals for the WMCA budget that can be consulted upon with Directors of Finance, receive legal comments and reviewed and commented upon by Leaders in consultation with the Chief Executives. The paper to be finalised and concluded ready for circulation with the WMCA Board papers to be despatched on 2 February 2018. To facilitate this a meeting will be scheduled for 1 February 2018 to approve (and amend as necessary) the budget report to be released on 2 February 2018.

6. Financial implications

6.1 The amended proposals will not introduce a Mayoral Precept for 2018 - 2019.

6.2 The Combined Authority wishes the budget to reflect the following:

- a) The Mayor's office to absorb any increase in costs ie: no council tax precept to fund the Mayor's office. WMCA officers to propose a method of funding the Mayor's Office and a detailed breakdown of costs. This will include how the Mayor's allowance will be funded.
- b) Network resilience be funded through the transport levy (This would mean that forecast reductions for each Council would be less than anticipated in the draft budget). WMCA officers to confirm the exact calculations and impacts of this on each Council.
- c) The Combined Authority is minded to support a Mayoral precept in 2019 – 2020 subject to agreement on the detail of the Mayoral precept.

7. Legal implications and Governance Implications

7.1 The WMCA Constitution requires the following process to be used.

7.2 The process in respect of setting the Mayoral Budget is as follows:

- i. The Mayor must notify the Authority in respect of their annual draft budget for forthcoming year before the 1 February.
- ii. Before the 8 February the Authority will either accept the draft budget or make a report with recommendations as to the relevant amounts and calculations that should be used;
- iii. The Mayor will have five working days beginning the day after the day the Mayor receives the report to decide whether or not to make any revisions or if not the reasons why not;
- iv. On receipt of the Mayors response the Authority, within five working days beginning with the day after the date specified in (iii) above expires, will either approve the Mayors draft Budget or veto the draft budget;
- v. In vetoing the Mayors draft Budget the Authority will approve a revised draft budget which must be decided by two thirds of the Constituent Members;
- vi. There must be recorded in the minutes of the proceedings for the meeting referred to in (v) above the names of the persons who cast a vote for the decision or against the decision or who abstained from voting.

7.3 The proposals contained within this report will satisfy these requirements.

8.0 Equalities implications

- 8.1 There are no direct equalities implications of this decision except for the removal of proposals which would add £10.80 per band D Council Tax property.

9.0 Other implications

- 9.1 Constituent Councils outlined their expectations with regard to the budget cycle. This is as follows:
- 9.2 The budget process proposed (which mirrors previous years) is as follows:
- 9.3 September: each year a draft budget is prepared and considered by the Leaders in terms of financial impacts and how it helps to achieve WMCA priorities.
- 9.4 October: work is undertaken to refine the budget, work with Directors of Finance and informally consult with Leaders in consultation with their Chief Executives to consider impacts and any additional requirements or changes.
- 9.5 November: the Leaders are briefed on the positions and broad outline of how the proposals will look in December.
- 9.6 December: the Leaders will approve the budget strategy for the following year.
- 9.7 This allows Leaders to ensure the WMCA budget implications for Council budgets is fed into their local cycles and gives time if there are any last minute requirements.
- 9.8 January: for safety a further meeting in mid-January should be reserved in the diary if needed (although in previous years this has not been required).
- 9.9 A Working Group as detailed in the recommendations be set up to re baseline the WMCA budget and investment programmes. This should take place February to August to allow the work to be ready for the September to December budget cycle.

10.0 Schedule of background papers

- 10.1 WMCA Draft Budget and Mayoral Council Tax Precept for 2018-2019 – WMCA Board paper 12 January 2018.

Pay Policy Statement

1 Introduction and Purpose

- 1.1. The purpose of this policy is to clarify West Midlands Combined Authority's strategic stance on pay in order to provide direction for members and officers making detailed decisions on pay and to provide the citizens of the West Midlands with a clear statement of the principles underpinning decisions on the use of public funds.
- 1.2. As defined in Sections 2 (6), (7) and (8) of the Local Government and Housing Act 1989, the West Midlands Combined Authority has the power to appoint officers on such reasonable terms and conditions, including remuneration, as the authority thinks fit. This Pay Policy Statement (the 'statement') sets out the West Midlands Combined Authority's approach to pay policy in accordance with the requirements of Section 38 of the Localism Act 2011. The purpose of the statement is to provide transparency with regard to the West Midlands Combined Authority's approach to setting the pay of its employees by identifying;
 - the methods by which salaries of all employees are determined;
 - the detail and level of remuneration of its most senior staff i.e. 'chief officers', as defined by the relevant legislation;
 - the Committee responsible for ensuring the provisions set out in this statement are applied consistently throughout the West Midlands Combined Authority and for recommending any amendments to the statement to the West Midland Combined Authority Board.
- 1.3. Once approved by the West Midlands Combined Authority Board, the statement will come into immediate effect and will be published by no later than 1 April each year, subject to review on a minimum of an annual basis in accordance with the relevant legislation prevailing at that time.

2 Legislative Framework

- 2.1. In determining the pay and remuneration of all of its employees, the West Midlands Combined Authority will comply with all relevant employment legislation. This includes, but is not an exhaustive list, the Equality Act 2010, Part Time Employment (Prevention of Less Favourable Treatment) Regulations 2000, The Agency Workers Regulations 2010 and where relevant, the Transfer of Undertakings (Protection of Earnings) Regulations.
- 2.2. With regard to the Equal Pay requirements contained within the Equality Act, the West Midlands Combined Authority ensures there is no pay discrimination within its pay structures and that all pay differentials can be objectively justified through the use of equality-proofed job evaluation mechanisms which directly relate salaries to the requirements, demands and responsibilities of the role.

3 Pay Structure

- 3.1. The purpose of pay is to encourage staff with the appropriate skills to seek to work for the Authority and then to reward them appropriately for the tasks they undertake in order to maintain their motivation and retain their services.

- 3.2. Based on the application of job evaluation processes, the West Midlands Combined Authority uses the nationally negotiated pay spine as the basis for its local grading structure (known as the main salary scale). This determines the salaries of the majority of the workforce, together with the use of other nationally defined rates where relevant. The West Midlands Combined Authority's terms and conditions of employment for non-Chief Officers will be in accordance with collective agreements negotiated from time to time by the Passenger Transport Forum for Passenger Transport Executive Staff set out in the Scheme of Salaries and Conditions of Service (Commonly known as the "Green Book") as amended or supplemented by such local collective agreements reached with trade unions recognised by the West Midlands Combined Authority, currently Unison.
- 3.3. In determining its grading structure and setting remuneration levels for all posts, the West Midlands Combined Authority takes account of the need to ensure value for money in respect of the use of public expenditure, balanced against the need to recruit and retain employees who are able to meet the requirements of providing high quality services to the community, delivered effectively and efficiently and at times at which those services are required.
- 3.4. New appointments will normally be made at the minimum of the relevant grade, although this can be varied where necessary to secure the best candidate. From time to time it may be necessary to take account of the external pay market in order to attract and retain employees with particular experience, skills and capacity. Where necessary, the West Midlands Combined Authority will ensure the requirement for such is objectively justified by reference to clear and transparent evidence of relevant market comparators, using appropriate data sources.

4 Market supplements

- 4.1. The West Midlands Combined Authority has a policy to offer market supplements in instances where the substantive grade of the post is insufficient to attract or retain post holders in skill shortage areas, based on evidence of recruitment and retention difficulties. The Market supplement has been defined in the form of 2 additional increments added to the main salary scale.

5 Senior Management Remuneration

- 5.1. For the purposes of this statement, senior management means 'chief officers' as defined within S43 of the Localism Act. The posts falling within the statutory definition are set out overleaf, with details of their basic salary as at 1st April 2017. Salaries quoted are based on the full time equivalent (FTE) of 36.5 hours per week. The table lists the 34 chief officer posts that make up 8.63% of the 397* people employed by the Authority.

*Refers to the staffing count as at 1st January 2018 which includes all permanent, temporary and casual employees.

Title	Grade	Pay
Chief Executive	Chief Executive	£187,500.00
Metro Programme Director	Director	£137,714.00
Managing Director - Transport for West Midlands	Director - Leadership	£121,200.00
Director of Strategy	Director - Leadership	£118,000.00
Director of Finance	Director - Leadership	£118,000.00
Director of Public Service Reform	Director - Leadership	£118,000.00
Director of Skills & Productivity	Director - Leadership	£115,000.00
Director of Housing and Regeneration	Director - Leadership	£110,000.00

Title	Grade	Minimum	Maximum
<u>Transport Services Directors</u> Finance and Commercial Director - MMA Director of Midlands Connect Director of Integrated Services Metro Operations Director Director of Network Resilience Director of Customer Experience (Interim) Director of Development and Delivery Director of Policy Strategy & Innovation	Directors (8 posts)	£83,000.00	£102,000.00
Interim Head of OD Head of Metro Development Head of ICT Head of Finance & Business Planning Head of Customer Services Head of Swift Chief of Staff to Mayor Head of Governance	Head of Service 1 (8 posts)	£72,428.00	£90,000.00
Head of Communications & Public Relations Head of Strategy Key Route Network Manager Head of Network Delivery Head of Sprint Head of Communications Head of Transport Innovation Head of Franchise Management Head of Rail Development Legal Services Manager	Head of Service 2 (10 posts)	£59,590.00	£63,968.00

5.2. For information the main salary scale, covering the majority of the workforce, is shown in the Appendix.

6 Recruitment of Chief Officer Related Posts

- 6.1. The West Midlands Combined Authority's policy and procedures with regard to recruitment of chief officer related posts is set out within the Constitution which can be accessed [click here](#). The West Midlands Combined Authority shall appoint seven separate Members from the Constituent Councils, the Mayor and any other additional person as required, as members of the Employment Committee. When recruiting to all posts the West Midlands Combined Authority will take full and proper account of its own policies and procedures. The determination of the remuneration to be offered to any newly appointed chief officer related position will be in accordance with the pay structure and relevant policies in place at the time of recruitment. The agreement of pay and conditions for the Chief Executive and Chief Officers are in accordance with the Joint Negotiating Committee for Chief Officers of Local Authorities'. Where the West Midlands Combined Authority is unable to recruit to a post at the designated grade, it will consider the use of temporary market forces supplements in accordance with its relevant policies.
- 6.2. Where the West Midlands Combined Authority remains unable to recruit to chief officer related posts under a contract of employment, or there is a need for interim support to provide cover for a vacant substantive chief officer related post, the Authority will, where necessary, consider engaging individuals under 'contracts for service'. These will be sourced through a relevant procurement process ensuring the West Midlands Combined Authority is able to demonstrate the maximum value for money benefits from competition in securing the relevant service. The temporary filling of a vacancy for a post of Chief Officer or Deputy Chief Officer will be for a period of no more than 12 months.

7 Additions to Salary of Chief Officer Related Posts

- 7.1. The West Midlands Combined Authority does not normally apply any bonuses or performance related pay to its chief officer related posts. Chief Officers are currently employed on a fixed salary with no incremental scale. No other elements of 'additional pay' are paid in addition to basic salary, albeit where the West Midlands Combined Authority may pay reimbursement of expenses incurred in the fulfilment of duties.

8 Payments on Termination

- 8.1. The West Midlands Combined Authority's approach to discretionary payments on termination of employment of chief officers, prior to reaching normal retirement age, is set out within its policy statement in accordance with Regulations 5 and 6 of the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006 and the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended).
- 8.2. The circumstances of each individual redundancy case will be assessed, each specific case will be judged equally and fairly on its own merits.
- 8.3. For redundancy payment purposes the following applies to all posts holders:
 - All continuous service with local authority and other bodies specified by *The Redundancy Payments (Continuity of Employment in Local Government, etc.) (Modification) Order*, as amended, counts towards the entitlement to and calculation of a payment. Any service already taken into account by a Scheme employer in calculating compensation under these or similar Regulations will be excluded.

- No employee may receive a redundancy payment in a sum greater than their current annual salary as at the date of redundancy. (This excludes any payment for pay in lieu of notice).
- Statutory or enhanced redundancy pay will be paid to those with over 2 years continuous employment. Payment for each week's pay will be calculated on the number of statutory weeks, based on an employee's age and length of employment. Length of service is capped at 20 years.
- A week's pay for the calculation of the enhanced redundancy payment shall be the actual amount of a week's pay based on the annual salary as at the date of redundancy. To calculate the enhanced redundancy payment this shall be multiplied by a factor of 1.75.

8.4. Any other payments falling outside the provisions or the relevant periods of contractual notice shall be subject to a formal decision made by the West Midlands Combined Authority or relevant elected members, committee or panel of elected members with delegated authority to approve such payments.

9 Publication

- 9.1. Upon approval by the West Midlands Combined Authority Board, this statement will be published on the West Midlands Combined Authority's Website.
- 9.2. In addition, the West Midlands Combined Authority's Annual Statement of Accounts will include a note setting out the number of staff whose total remuneration is at least £50,000 and for chief officer posts it will show the amount of
- salary, fees or allowances paid to or receivable by the person in the current and previous year;
 - employers contribution to the person's pension;
 - any bonuses so paid or receivable by the person in the current and previous year;
 - any sums payable by way of expenses allowance that are chargeable to UK income tax;
 - any compensation for loss of employment and any other payments connected with termination; and
 - any benefits received that do not fall within the above.

10 Lowest Paid Employees

10.1. The West Midlands Combined Authority has adopted the policy to pay the UK Real Living Wage. The lowest paid persons employed under a contract of employment with the Authority are employed in accordance with the minimum spinal column point currently in use within the Authority's grading structure. As at 1st April 2017 this is £18,072 per annum and is 7 points higher than the main pay spine minimum and 3 points higher than the UK Real Living Wage minimum in the spinal column. The West Midlands Combined Authority employs Apprentices who are not included within the definition of 'lowest paid employees' as the terms and conditions are determined by the National Apprenticeship Service. The relationship between the rate of pay for the lowest paid and chief officers is determined by the processes used for determining pay and grading structures as set out earlier in this policy statement.

- 10.2. The statutory guidance under the Localism Act recommends the use of pay multiples as a means of measuring the relationship between pay rates across the workforce and that of senior managers, as included within the Hutton 'Review of Fair Pay in the Public Sector' (2010). The Hutton report was asked by Central Government to explore the case for a fixed limit on dispersion of pay through a requirement that no public sector manager can earn more than 20 times the lowest paid person in the organisation. The report concluded that "it would not be fair or wise for the Government to impose a single maximum pay multiple across the public sector". The West Midlands Combined Authority accepts the view that the relationship to median earnings is a more relevant measure and the Government's Code of Recommended Practice on Data Transparency recommends the publication of the ratio between highest paid salary and the median average salary of the whole of the authority's workforce.
- 10.3. The current pay levels within the West Midlands Combined Authority define the multiple between the lowest paid employee and the Chief Executive as 1:10.38 and; between the lowest paid and average chief officer as 1:4.63. The West Midlands Combined Authority's multiplier falls well below Lord Hutton's public sector threshold.
- 10.4. As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside the sector, the West Midlands Combined Authority will use available benchmark information as appropriate.

11 Re-engagement and Re-employment of former Chief Officer Related Posts

- 11.1. Other than in exceptional circumstances the West Midlands Combined Authority would not normally re-employ or re-engage chief officers who were previously employed by the West Midlands Combined Authority and who on ceasing to be employed, received severance or redundancy payment.

12 Accountability and Decision Making

- 12.1. In accordance with the Constitution of the West Midlands Combined Authority, the Employment Committee is responsible for decision making in relation to the recruitment, pay, terms and conditions and severance arrangements in relation to chief officer positions within the West Midlands Combined Authority. Overall the West Midlands Combined Authority aims to maintain a mid-market position on chief officer pay in comparison to similar authorities.

West Midlands Combined Authority - SALARY SCALES
INCREASED WITH EFFECT FROM 1 APRIL 2017

	NEW BASIC SALARY W.E.F.1.4.17
SALARY POINT	PER ANNUM
9	14841
10	15377
11	15838
12	15900
13	16353
14	16932
15	17488
16	18072
17	18798
18	19551
19	20328
20	21142
21	21991
22	22866
23	23787
24	24736
25	25724
26	26755
27	27822
28	28933
29	30096
30	31297
31	32550
32	33525
33	34532
34	35564
35	36635
36	37738
37	38867
38	40030
39	41234
40	42472
41	43744
42	45057
43	46408
44	47802
45	49239
46	50713
47	52238
48	53805
49	55413
50	57075

	NEW BASIC SALARY W.E.F.1.4.17
MARKET SCALES SALARY POINT	PER ANNUM
51	58787
52	60551