



WEST MIDLANDS
COMBINED AUTHORITY

Audit, Risk & Assurance Committee

Date	16 th March 2018
Report title	West Midlands Combined Authority Annual Governance Statement
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email Deborah.Cadman@wmca.org.uk Tel 0121 214 7200
Accountable Employee	Sean Pearce Director of Finance Email Sean.Pearce@wmca.org.uk Tel 0121 214 7936
Report to be/has been considered by	None

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

1. Approve the draft Annual Governance Statement prior to its inclusion within the financial statements for 2017/ 2018.

1.0 Purpose

1.1 This report provides members with a draft of the Annual Governance Statement (AGS) for their consideration and to approve sections 3.0 to 9.0.

2.0 Background

2.1 The Annual Governance Statement is a statutory document which explains the processes and procedures in place to enable the Combined Authority to carry out its functions effectively. This AGS is brought as a draft document at this stage for two reasons. The financial and audit year has not yet been completed and so it is always possible that another issue might arise that requires comment or inclusion. Secondly, approval for the final AGS will be sought as part of the process of approving the annual accounts of the Combined Authority in June.

2.2 The Combined Authority has been through a sustained period of change and development since the last AGS was approved. In early 2017 the Authority was managed mainly by interim or seconded staff from Constituent Authorities including interim Chief Executive, Section 151 Officer and Monitoring Officer. The last AGS was also approved before the election of the Mayor Andy Street in May 2017.

2.3 Since May 2017 the Mayor has begun to shape the priorities of the Combined Authority and a second Devolution Deal was negotiated with Central Government in November 2017. An almost entirely new Leadership Team has been appointed including the new Chief Executive, Deborah Cadman and a team of Directors leading particular priority areas. Work has continued to strengthen and improve governance arrangements, Board Reporting, Forward Planning and the work of ARAC and Overview and Scrutiny Committee.

2.4 There is however much remaining to be done before the Combined Authority becomes a mature organisation with settled teams and fully embedded governance arrangements. The 2018/19 budget setting process for instance provided a number of learning points for improvement which the Combined Authority has committed to implement for the future. The AGS should be seen in this context as relating to an organisation which is in some respects still in formation and which may look different again in 2019/20.

3.0 Scope

3.1 This Annual Governance Statement reflects the activities of West Midlands Combined Authority (WMCA) from 1st April 2017 to 31st March 2018.

3.2 The WMCA is made up of seven district councils, constituent and non-constituent members, three Local Enterprise Partnerships (LEPs), observers and a co-opted member.

3.3 The WMCA Constituent Council consists of the seven district councils across the region. They are:

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

3.4 The Non-Constituent member of the WMCA are comprised of non-constituent authorities and LEP members.

Non-constituent authorities

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

LEP members

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

3.5 There are also four Observers of the WMCA. These are:

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

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

- Trade Union Congress (TUC)

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

4.0 Purpose of Corporate Governance

4.1 The West Midlands Combined Authority is responsible for ensuring that business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for and delivers value for money.

4.2 The WMCA Governance Framework forms part of the Constitution and details the Boards and Committees which provide oversight and assurance.

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

- 4.4 In discharging this overall responsibility, WMCA Leadership Team and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) which comprises the legislative requirements, systems and processes, cultures and values. This enables WMCA to govern its affairs, facilitate the effective exercise of its functions, which includes arrangements for the management of risk, in addition to exercising leadership and being held accountable for its decisions and activities.
- 4.5 The WMCA has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 4.6 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives; and evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.
- 4.7 WMCA has developed a Risk Management Strategy and strategic risk register, which is reported to regular meetings of the Authority's Audit, Risk and Assurance Committee and WMCA Leadership Team. It provides visibility of risk at operational, program and strategic levels.

5.0 Annual Governance Statement

- 5.1 This Annual Governance Statement meets the requirements of Regulation 3 of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement.
- 5.2 The West Midlands Combined Authority demonstrates compliance with the seven core principles of good governance set out in the latest CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016).

These seven principles are:

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

6.0 Governance Framework

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

- 1.1 The code of conduct is laid out in the Constitution; this defines standards of behaviour for Members and officers working on behalf of the Authority. The Head of Organisation Development deals with issues of conduct and generally promote high

standards among officers members. The Monitoring Officer deals with any issues relating to the Mayor and elected Members.

- 1.2 WMCA embeds standards of conduct and behaviour through promoting a culture with values:

Be collaborative

- We work with others to reach common goals
- We are respectful and act with integrity
- We communicate clearly, openly and encourage feedback

Be innovative

- We encourage creativity, originality and curiosity from everyone
- We embrace change, are open to new possibilities and exploring new ideas
- We adopt best practices and keep up to date with new developments to enhance our work

Be driven

- We have a positive, proactive and a solution oriented attitude
- We are performance driven and deliver to a high standard
- We deliver on expectations and raise the game through clear goals
- We take ownership for our performance and outcomes

Be inclusive

- We care about and treat each other with dignity and respect
- We create a positive working environment to work in
- We value diversity and consider other people's viewpoints

- 1.3 The business of WMCA will also be conducted in accordance with the Seven Principles of Public Life identified in The Nolan Committee Report (1995), and defined as selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

2. Ensuring openness and comprehensive stakeholder engagement.

- 2.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.
- 2.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.
- 2.3 We assess the effectiveness of relationship frameworks in order to identify any changes required.
- 2.4 Our inclusivity work ensures we encourage engagement from all members of society

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

- 3.1 The WMCA is working to achieve the priorities set out in the Devolution Deals that have been negotiated with Central Government. WMCA's purpose and vision are detailed in the Strategic Economic plan (SEP) and the Mayor's Renewal Plan.

- 3.2 WMCA ensure the vision and the implications for governance arrangements are reviewed through the budget and performance management framework.
- 3.3 We ensure the purpose and vision of WMCA is clear and well communicated.
- 3.4 WMCA is focused on delivering value for money and success in this respect is reviewed by independent auditors in line with the NAO's auditor's guidance note (AGN03). The results of our Value for Money audit work and the key messages arising will be reported in an Audit Findings Report and in the Annual Audit Letter.
- 3.5 An annual report communicates WMCA activities and achievements titled The Annual Business Plan.

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

- 4.1 The WMCA's work is within the context of the Devolution of powers from Central Government. The Authority works closely with the relevant Government Departments, local and national stakeholders and constituent and non-constituent authorities to determine the necessary actions to achieve these priorities.
- 4.2 Decisions required are identified by the Leadership Team and taken through the necessary decision-making levels with all principle decisions being taken by WMCA Board. Performance reports and action plans are agreed by Board.

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

- 5.1 We identify and aim to address the development needs of members and officers in relation to their roles and support with appropriate induction and training.
- 5.2 ARAC members have received finance training to allow them to understand financial accounts and reporting. WMCA Finance Team provided training to ARAC on pensions accounting and disclosures at its meeting on 19 January 2018. We will provide further training on the West Midlands Combined Authority's overall accounting arrangements and financial statements on 16 March 2018. Overview and Scrutiny Committee Chairs and leading Members have participated in external training and events.
- 5.3 We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.
- 5.4 The collective and individual roles and responsibilities of the Leadership Team, Members and officers have been agreed by WMCA Board.
- 5.5 A scheme of delegation is laid out in the Constitution

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

- 6.1 WMCA ensures compliance with relevant laws and regulations, internal policies and Procedures.
- 6.2 WMCA is rigorous and transparent about decision making and the recording of decisions. The Overview and Scrutiny Committee reviews and challenges the work and decisions of WMCA amidst with policy review and development.
- 6.3 The Audit, Risk and Assurance Committee (ARAC) is independent of the executive and scrutiny function. They monitor and review risk and governance processes, and results, in order to provide assurance to WMCA board on their effectiveness.
- 6.4 A robust assurance framework consistently ensures governance and process are independently reviewed and reported and the risks have been identified and are being adequately managed. Internal Audit provides the 'third line of defence' with the first line being policies, procedures and controls and the second being managers' own checks of the control environment. Professional advice and good quality information is provided to ensure those making decisions are provided with relevant information that is fit for purpose.
- 6.5 Risk management is embedded in the culture; accountabilities and responsibilities defined within roles, and with processes determining ways of working, managing and reporting risk.
- 6.6 Arrangements are in place for "whistleblowing" and "counter-fraud" for receiving and investigating complaints from both officers and members of public.

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

- 7.1 The WMCA has implemented the WMCA Assurance Framework which was approved by DCLG in July 2016.
- 7.2 The WMCA is working closely with Department for Business, Energy and Industrial Strategy (BEIS) who will review the performance of the Devolution objectives and adherence to the Assurance Framework.
- 7.3 Currently being developed are new devolved funding schemes, for example Adult Education Budget and Housing, which will require their own Assurance Framework and signed off by the appropriate government department.
- 7.4 A checklist has been implemented for the Arm's Length Companies of the WMCA to ascertain confidence in governance and assurance arrangements. This action came out of the Audit, Risk and Assurance Committee, to develop a checklist of questions that would provide a mechanism of assurance to the Committee that could provide overall assurance on all of WMCA's activities.

7.0 Action Plan for the Significant Governance Issues

- 7.1 Table in **Appendix 1** shows matters that have been identified as being significant for the purpose of the 2017/18 annual governance statement. These issues will need addressing in 2018/19 and over the coming year appropriate actions to address these matters and further enhance governance arrangements will be taken.

8.0 Annual Review of Effectiveness of Governance Framework

The Opinion of the Head of Governance 2017/2018

- 8.1 The Head of Governance is satisfied that the system of internal assurance is robust and providing visibility of risk and reasonable assurance to the senior management teams.
- 8.2 The opinion is based on the results of an on-going programme of activities and review, the outcomes of which were considered by the Audit, Risk & Assurance Committee. Activities include:
- External audit
 - Internal audit
 - The Risk Management Process, particularly the Strategic Risk Register
 - Performance information
 - Assurance
- 8.3 During the period 2017/ 2018, the Treasury Management audit and four out of five 'key financial systems' audits were given 'Substantial' rating by internal audit and the Investment Programme - Governance Arrangements for Project Appraisal and Approval audit a satisfactory level of assurance. Overall, all finalised audits undertaken had been rated Substantial or Satisfactory except for two, demonstrating that the systems and processes around audit, risk and governance are effective. A limited rating was given in two areas however Internal Audit have stated that this was not fundamental to their overall opinion of reasonable assurance, an opinion that the Head of Governance agrees with.
- 8.4 As an integral part of agreeing devolution of powers to WMCA, the Assurance Framework was agreed by the Audit, Risk and Assurance Committee in March 2016 and approved by DCLG in July 2016 and has since been implemented. The framework reviews internal delivery and the work of WMCA delivery partners, to ensure work delivered adheres to policy and legislative requirements and management processes identify risks to delivery.
- 8.5 A total of 27 project assurance reviews have been undertaken by the Corporate Assurance Team in this period, covering 19 different projects. These projects follow the WMCA Gateway Project Methodology for minor projects.
- 8.6 Programme Assurance arrangements for major projects within the Investment Programme have continued to be undertaken in accordance to the approved WMCA Assurance Framework and project investment process. Technical Appraisal Panel provide initial assurance on submission of business cases for funding for Investment Programme funding. Covering the period October 2017 – March 2018, 11 business cases have been reviewed by Technical Appraisal Panel (TAP).
- 8.7 Progress of the 2017/18 annual business plan is monitored monthly by internal Management Boards with key risks impacting on its delivery, being escalated to the corporate risk register.
- 8.8 Regular risk management review meetings are now in place across all WMCA activities including Commissions to enable full visibility of key risks having the potential to impact on the organisation.
- 8.9 There are a total of 11 operational Risk Registers feeding into the WMCA Strategic Risk Register with regular meetings in place with the management team of each business area to monitor the status of risks and to ascertain the level of risk exposure in each of these

areas to determine the assurance conclusions.

8.10 The successes of the WMCA includes the successful appointment of the elected Mayor, Chief Executive Officer and Leadership Team. The WMCA is one of England's Combined Authorities to successfully negotiate a further devolution deal.

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

9.0 Conclusion

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

10.0 Wider WMCA Implications

10.1 The framework will be subject to continued review to ensure it remains fit for purpose and takes into account the increasing remit of WMCA.

11.0 Financial implications

11.1 There are no direct costs or other financial implications involved with the production of these statements.

12.0 Legal implications

12.1 This Annual Governance Statement meets the requirements of Regulation 3 of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement, demonstrating compliance with the seven core principles of good governance set out in the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016).

13.0 Equalities implications

13.1 There are no equalities implications as a direct consequence of this report.

14.0 Other implications

14.1 None.

15.0 Schedule of background papers

15.1 None.

16.0 Appendices

Appendix 1: Action Plan for the Significant Governance Issues identified during 2017/18 which will need addressing in 2018/19