



## Audit, Risk & Assurance Committee

<b>Date</b>	16 <sup>th</sup> March 2018
<b>Report title</b>	WMCA Assurance Overview March 2018
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<b>Report to be/has been considered by</b>	None

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

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

- a) Note the assurance reviews and activities that have been undertaken in the last six months (paragraphs 4-37).
- b) Confirm that ARAC are satisfied with the assurance activity October – March 2018.

## **Purpose of Report**

1. The report provides members the views of WMCA's Corporate Assurance Manager's opinion on the Authority's systems of Project & Programme Assurance and Business Assurance (including Risk Management, Internal Audit and Business Continuity & resilience) for this reporting period October 2017 – March 2018.

## **Background**

2. The intention of the report is to summarise the assurance activity since the last reporting period and highlight any matters that are of concern that require further consideration or additional assurance activity.
3. Since the last update and supporting the transitional arrangements to WMCA, the Corporate Assurance team have continued to develop and refine appropriate assurance processes for the West Midlands Combined Authority. A brief summary of this activity is also provided in this report for note at this point in time.

## **Project & Programme Assurance**

### TfWM/ Corporate Services Minor Project Assurance Summary

4. 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. Of these, 4 reviews considered projects which are likely to be in excess of the £5m threshold normally applied to minor projects. These were Longbridge Park and Ride, Perry Barr, 3G Trams and UK Connected Autonomous Vehicles.
5. Of the 27 project reviews 2 related to the Investment Programme, these were New Stations and Sutton Coldfield Gateway.
6. The TfWM Capital Programme 2018/19 has now been approved by the WMCA Board.
7. Due to findings from the internal audit report for project appraisal processes, the internal governance arrangements for minor works projects funded through the Capital Programme are being reviewed. The review is being led by the Corporate Assurance lead with the Programme Management Office and Project Development team.

### WMCA Investment Programme Major Project Assurance Summary

8. 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.

9. Covering the period October 2017 – March 2018, 11 business cases have been reviewed by Technical Appraisal Panel (TAP). Namely;
  - Coventry Station Master Plan (incl Friargate West) (FBC) – (£0)
  - Coventry North Package (SOC) - (£0)
  - Sprint Hagley Road - Phase 2 Dudley & Halesowen (SOC) - (£0.5 Million)
  - HS2 Connectivity - WMCA New Stations (SOC) – (£3.62 Million)
  - Urban Challenge (SOC) – (£0)
  - Digital Programme (SOC) – (£0)
  - UKC - UGC Interchange: UGC Business Plan (SOC) – (£10.061 Million)
  - UKC - UGC Interchange: HS2 Hybrid Act Change (OBC) – (£9.8 Million)
  - CEF Birmingham International Station Development (OBC) – (£0)
  - Metro Wolverhampton Interchange (FBC) – (£27.4 Million)
  - Coventry Friargate Business District (FBC) – (£0.2 Million)
10. Two change requests were approved within this period for the Investment Programme. These were for Metro Wednesbury to Brierley Hill where the request to bring forward £1.6 million of expenditure from 2018/19 into this financial year was approved in order to bring forward the opening of the first phase of this route, and Sprint Hagley Road Phase 2 where the request was approved to amalgamate Hagley Road Phase 1 and Phase 2 schemes.
11. A specific report on Wolverhampton Interchange Programme was agreed by the Investment Board requesting additional funding. The Wolverhampton Interchange Programme (WIP) is a key element of the Strategic Economic Plan for the City and the wider Black Country. At 27 November 2017, WMCA Investment Board received a report from the Wolverhampton Interchange Programme (WIP) that stated that the overall scheme WIP is now estimated to cost £81.8m which is £30m above the budgeted £51.8m and comprises of new station building, extension to the multi storey car park and tram extension.
12. The Wolverhampton Interchange Programme (WIP) proposed that the WMCA capital contribution of £15 million will be made available from within the existing Investment Programme and it is anticipated that any contribution from the Investment Programme will be accommodated from within existing resources without any impact on what was already planned to be funded from the annual gain share grant of £36.5 million. This is possible because the overall cost of interest associated with borrowing is now anticipated to be lower over the 30 year period, creating some headroom to fund additional capital investment. Funding of the other £15m will be provided by Wolverhampton City Council which will be funded by borrowing as approved by the Cabinet in September 2017.
13. The WIP programme will work to minimise costs and an equal proportion of any savings from the £30m will be returned back to the WMCA investment programme and Wolverhampton City Council.

14. The additional funding was approved by the WMCA Board on 8th December 2017 including the commitment of funding by the WMCA of £49.3m, of which £21.9m is to be funded by the Department for Transport deed as approved by the ITA and the remainder financed by borrowing as detailed in the table below.

The project has committed funding from various funding providers and is detailed in the table 2 below and further funding approval of £30m is required for delivery of the programme.

Table 2

Funded by:	Funding Committed	Funding Approval	Total
BCLGF	13.5		13.5
ITB	3.0		3.0
Wolverhampton City Council	1.0	15.0	16.0
WMCA Contribution (Investment Programme)	12.4	15.0	27.4
WMCA Contribution (DfT Deed)	21.9		21.9
<b>Total</b>	<b>51.8</b>	<b>30.0</b>	<b>81.8</b>

15. The WMCA Board also approved the delegation of powers to the WMCA to the Metro Programme Director and the Head of Governance to enter into the necessary legal agreements.
16. The Programme Management Office Risk Manager is developing the Investment Programme risk management processes. From April 2018 onwards an Investment Programme Risk Register will be implemented to understand what are the most important risks on the most critical projects, and what confidence does the WMCA have that they are being managed effectively? This revised mechanism will be developed to interface with the strategic and corporate risk management processes. This exercise is expected to be completed for June 2018.
17. Specifically the views of the Programme Management Office Risk Manager is that the majority of the projects are at a very early stage (pre-Final Business Case), the most significant risks seem to be around uncertainty of funding and the definition of the full project scope. A question that should be addressed is how far should projects be allowed to progress (and incur costs) before there is certainty of funding, this risk is going to be taken into consideration as part of the detailed risk review of the Investment Programme planned for Summer 2018. This risk is also be regularly monitored by the Investment Programme Performance Management Group and Finance teams. An area of common concern seems to be the length of time taken to go through the approval stages for the various Business Case submissions is jeopardising the overall project delivery timescale. This risk is being reviewed as part of the wider Investment Programme governance review and will also be highlighted in the formal Annual Conversation with BEIS (Department for Business, Energy & Industrial Strategy).
18. In relation to the Investment Programme funding gap. The Finance Director presented a report on progress update on the West Midlands Combined Authority Investment Programme to the WMCA Board in January 2018 to note the current funding position of the Investment Programme 18 months after the establishment of the West Midlands Combined Authority. It should be noted that the £8.0 billion Investment Programme is funded by:

- £2.0 billion of funding generated by the West Midlands Combined Authority; and
  - £6.0 billion of other funding sources including Constituent Members internally generated funds, Central Government grants and 3<sup>rd</sup> party contributions.
19. In relation to the £2.0 billion funding intended to be generated by the West Midlands Combined Authority the WMCA Board approved the recommendation to
- a) Note the continued work with Central Government on providing the power to introduce a Business Rates supplement as envisaged in the first Devolution Deal;
  - b) Endorse the work planned in the final Quarter of the 2017/18 Financial Year for Finance Directors to agree an approach that confirms the contribution of locally generated Business Rates to fund the Investment Programme;
  - c) Endorse an approach whereby the West Midlands Combined Authority are consulted with prior to any future changes to Business Rates income forecasts, such as the development of Enterprise Zones; and
  - d) Endorse the delivery of a process with Leaders of Constituent Authorities, Chief Executives and Finance Directors to rank and sequence the Investment Programme based on the current assessment of when funding streams aligning specific project approvals only where funding has been or is likely to be secured.
  - e) The Board also endorsed a Governance Review to confirm the appropriate Programme Governance to be implemented to provide assurance to the West Midlands Combined Authority Board based on the updated review of Programme delivery and funding.

## **Business Assurance**

### Business Plan 2017/18 Progress:

20. 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. A key risk being highlighted on a number of deliverables refers to resourcing issues within the respective department. This is contained within the departmental risk register and is being management at a local level. End of year reporting of progress on the Annual Plan will be reported in April to understand the final position.
21. Development of the 2018/19 annual business plan is currently being finalised and it is expected reporting on the delivery of this plan will commence in May 2018.

### WMCA Business Continuity & Resilience:

22. Since October 2017, the business continuity & resilience arrangements have been tested. This has included, testing of IT systems in a Disaster Recovery environment, Transport for West Midlands supporting first responders in a major incident scenario affecting Birmingham City Centre and scenario planning and an incident scenario affecting business operations in 16 Summer Lane.

23. This has demonstrated the value WMCA regards business continuity & resilience arrangements. In order to support continuous improvement and ensuring that the arrangements in place continue to be effective, the supporting plans for these business and operational areas have been tested. The scenario tests have led to lessons learned where further improvements need to be made. Action owners for all recommendations have been identified and are progressing.
24. The Business Continuity arrangements for 16 Summer Lane were recently tested in a real incident which impacted the accessibility of 16 Summer Lane due to a burst water pipe and flooding to the first floor. A decision was taken in out of hours by the Silver and Gold levels Incident Management Team to close the building to staff a part from essential staff who needed to be in the office. A detail review of the incident and lessons learned is being undertaken to improve processes in any future incident. However it was agreed by the Finance Director that overall operational teams worked effectively with the Incident Management Team to deal with immediate risks and ensure staff safety. Clear lines of communication and escalation were established between Silver and Gold levels. The building was accessible for staff by the following day once Health and Safety clearance was given. Staff were advised according to the Difficulty Travelling to Work Policy & Procedure and had opportunities to work remotely and were kept up to date on progress via regular email communications and via the staff emergency hotline number.

Risk Management:

25. 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.
26. 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.
27. Following discussion at the previous meeting of the Audit, Risk and Assurance Committee, the strategic risk register has been reviewed to further consider the risk and impact of stakeholder relations and financial assumptions. No new risks have been introduced to the register during the last period with 11 recorded on the register of which none are considered high risk at the present time.
28. A review of risk arrangements across all levels of the business is to be undertaken in order to validate current processes and to ensure a robust risk management function is maintained throughout the WMCA.
29. Key risk that is impacting across a number of directorates and projects is around capacity and capability staff resources. A separate report to be provided at ARAC in March 2018 by the Interim Head of HR & Organisation Development. The capacity and capability risk will continue to be monitored by the WMCA Leadership team.

Internal Audit:

30. A total of 9 internal audits were undertaken during the reporting period and finalised (October – March 2018). The audits covered:
  - 6 Key Financial Systems; Treasury Management Accounts Receivable, General Ledger, Payroll, Budgetary Control and Accounts Payable;
  - IR35
  - Mayoral Election Costs
  - Investment Programme Governance Arrangements for Project Approval and Appraisal
31. 7/9 of the final audits were given a ‘Substantial’ level of assurance. The other 2/9 were given ‘Satisfactory’ level assurance.
32. 3 audits at the time of producing this assurance report are still in draft form and are awaiting final sign off. It is expected the following assurance ratings will be given to these audits; National Fraud Initiative (Satisfactory), Establishment of the Mayoral Office (Limited) and Data Security Arrangements - including GDPR Readiness (Limited). Further detail on the internal audits are being presented at the Audit, Risk & Assurance Committee in the Internal Audit Annual Report and the limited audit reports will be presented separately to the audit committee once finalised.

WMCA Transition:

33. WMCA is still undergoing a transition. The formal leadership team is now in place and the WMCA Chief Executive, mostly as of the start of 2018 which allows the Combined Authority to begin implementation and delivery of the WMCA’s priorities. The Corporate Assurance Manager has met with most of the new Directors to understand emerging priorities of the new areas.
34. The WMCA is in established conversations with Government regarding devolution of significant funding for Adult Education Budget and with the Housing Deal. The WMCA will be held accountable for demonstrating and operating effective systems of internal control, governance and assurance for further devolved funding.
35. The WMCA Leadership team have reviewed and approved the Strategic Risk Register. The WMCA is also developing the Business Plan 2018/19 which incorporates the new directorates and priorities for these business areas. It is intended that a further detailed risk discussion will be held with the Leadership team to understand the business readiness and risks to the delivery of these objectives.
36. The formal Annual Conversation with the WMCA Chief Executive and the Leadership team with BEIS (Department for Business, Energy and Industrial Strategy) has now been confirmed for April 2018. The Annual conversation will cover providing assurance to BEIS against progress of devolution actions, strategy, governance and capacity. Through WMCA current experiences of operating the WMCA Assurance Framework and the requirement to make changes to the Investment Programme Governance (due to actions in the Internal Audit report findings). BEIS have confirmed that they are

happy to work with the WMCA to do a more detailed review of the framework and make amendments.

## **Conclusion**

37. The report will demonstrate through the assurance summaries provided the pace of change and growing areas of accountability for the West Midlands Combined Authority. The WMCA has continued to evolve since the submission of the last assurance update presented in September 2017 and the WMCA is expected to further evolve as new project/ programmes are initiated and mature in their development/ delivery lifecycles and further powers and funding is devolved to the WMCA.
38. Overall the Strategic risk register and operational/ programmes risks registers would support the view that risk is contained and is being managed at appropriate levels across the WMCA. The Investment Programme is still in its early establishment and proactive conversations have been demonstrated with WMCA stakeholders and government regarding addressing the funding gap if the pace of anticipated delivery continues.
39. In initial conversations with BEIS, they have been pleased that the WMCA has been proactive and have commissioned reviews for Investment Programme governance, Assurance Framework and Risk Management processes. This has demonstrated our desire to test that the current systems for these controls and assurance remain effective to support the WMCA's growing agenda.
40. To support the overall ambitions for the WMCA, the assurance that will need to be sought going forward is confirmation that the WMCA internal systems and processes, as well as the WMCA resource capacity and capability is sufficient to meet the pace of change for the WMCA's growing agenda.