

## Audit, Risk & Assurance Committee

<b>Date</b>	14 January 2019
<b>Report title</b>	Assurance Report – Arm’s Length Companies: Assurance & Governance Arrangements
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<b>Report has been considered by</b>	Not Applicable

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

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

- (1) Consider and confirm that ARAC are satisfied with the assurance arrangements that have been established to confirm the governance and assurance established for all WMCA’s Arm’s Length Companies.
- (2) To note that the WMCA Growth Company is an Investment in which WMCA has a 5.3% stake. The WMCA Senior Leadership Team is currently reviewing the performance information from the Growth Company and after this point the updated governance and assurance arrangements will be shared with ARAC.
- (3) WMCA have secured a bid to host a pilot of testing 5G technology. WMCA are currently in discussions with Department of Culture, Media and Sport to look at delivery options and potential operating structures. As these have not yet been confirmed and no company has been established. The company assurance and governance arrangements will be shared with ARAC at an appropriate time.

(4) To note that each of the companies, is registered on Companies House and have adhered to the requirements specified

## 1. Purpose

- 1.1 The focus of this Assurance Report is to summarise the governance and assurance arrangements of the West Midlands Combined Authority's Arm's Length Companies. This is to provide internal assurance that appropriate lead officers are satisfied with the governance and assurance arrangements are in place.

## 2. Background

The WMCA currently has 4 active Arm's Length Company relationships, namely;

No.	Company Name	Stake	Accounting Treatment
a.	West Midlands Rail Ltd	50%	Associate
b.	West Midlands Development Capital Ltd	100%	Subsidiary
c.	Midland Metro Ltd	100%	Subsidiary
d.	West Midlands Growth Company Ltd	5.3%	Investment

- 2.1 This report focuses on confirming the arrangements with the first 3 companies listed a-c. These are the companies that the West Midlands Combined Authority has the largest shareholding interest and therefore could have greater impact on operational and strategic risk.
- 2.2 Further detail regarding the West Midlands Growth Company and 5G will be presented to a future ARAC meeting. 5G is a new company that is being developed but ongoing discussions with Department of Culture, Media and Sports (DCMS) are currently taking place to discuss the potential operating model and company structure options and interface to WMCA.
- 2.3 For additional assurance, the WMCA Senior Leadership Team have requested that assurance and governance arrangements for Arm's Length Companies should be audited – included in the WMCA Audit Plan 2019/20 – 5G and WMR are to be audited next year.

### West Midlands Growth Company:

- 2.4 The West Midlands Growth Company (WMGC) was excluded from the review because it is an investment and not a subsidiary and at this present time due to agreements, the investment is currently under review by the WMCA Senior Leadership Team. Once these arrangements are confirmed an updated Assurance Report will be provided to Audit, Risk & Assurance Committee. The Legal Team are currently working in a Service Level Agreement and WMGC are due to provide performance monitoring reports to the Senior Leadership Team imminently.
- 2.5 The WMCA Chief Executive is on the WMGC Board. The WMCA Housing Director (Gareth Bradford) will be the lead WMCA Director following WMCA Finance Director's (Sean Pearce) departure.

### West Midlands Rail Ltd:

- 2.6 West Midlands Rail (WMR) is the Manager of West Midlands Rail franchise, it is 50% owned by WMCA. The company does have a legal agreement in place with WMCA and all the shareholders. The company has been operating since March 2017. The Board

consists of 14 Full Member authorities appoint Directors to the Board – normally council leader or cabinet lead for transport. There are no non-executive members, 2 Affiliate authorities have observer status. West Midlands Rail are based in 16 Summer Lane and under a Service Level Agreement, their head office support for finance, procurement, legal, risk management and business continuity is provided by the West Midlands Combined Authority. There are no internal auditors appointed for the company, however WMCA has specified that an external audit will be required for the current financial year onwards.

#### West Midlands Development Capital Ltd

- 2.7 The remit of the West Midlands Development Capital (WMDC) is to act as a fund manager for 2 WMCA investment funds. The first year's accounts are being prepared and the turnover is £485k. Legal agreements are in place between the two organisations. Both WMCA and non-WMCA directors sit on the board with an independent member as well, Terms of Reference for the Board are in place. WMDC provide a fund monitoring dashboard into Investment Advisory Group and Investment Board every month and actual company performance is managed through the board that the WMCA Strategy Director WMCA Finance Director attend.
- 2.8 Property Land Development Fund which are managed and monitored by the WMCA Investment Board. This fund is made of £70m Collective Investment Fund and £50m Brownfield Fund). Interim Finance Director has confirmed that these are satisfactory assurance arrangements for this company.

#### Midland Metro Ltd

- 2.9 Midland Metro Ltd (MML) was established on 24 June 2018 and operates the current Metro operations in the West Midlands. MML is a 100% subsidiary of WMCA. Midland Metro Ltd. Key legal agreements exist to formalise the relationship between WMCA and MML. Three directors with operational and financial experience; they are the Director, West Midlands Metro; Managing Director Transport for West Midlands; WMCA Head of Finance. One executive board member and two non-executive board members. WMCA Board approve MML Board arrangements at its meeting on 09/02/18, appointment is ongoing. Internal Audit is only a statutory function for public bodies – most large companies have an Internal Audit function but it is not legally required. Midland Metro Ltd would not be classified as a 'large company definition'. However, Midland Metro Ltd have confirmed that an Audit Committee will be appointed in early 2019, draft TOR have been established and MML are now in the process of sourcing suitable candidates. MML will be externally audited for the 2018/19 financial year.
- 2.10 Business Continuity and insurance arrangements are in place. The Midland Metro Ltd Procurement lead operates to the WMCA procurement processes and systems. Under a Service Level Agree with Corporate Services, Finance services for MML are also provided by WMCA, so the WMCA Interim Director of Finance confirms that the WMCA relies on the WMCA's Internal Audit Key Financial Systems annual audits. Risks related to MML are escalated from the MML Board to TfWM Board and then to the corporate/strategic risk register if requested.
- 2.11 The Shareholding Agreement has specified the performance reporting requirements that Midland Metro Ltd are required to adhere to as specified by the West Midland Combined Authority.

### **3. Financial Implications**

- 3.1 The Interim Finance Director has confirmed that all arm's length companies will be required to be audited by external audit. West Midlands Combined Authority provides financial services support to both West Midlands Rail and Midland Metro Ltd. The West Midlands Combined Authority systems and processes are annually audited by the WMCA Internal Audit team. The WMCA can rely on these internal audits of the key financial systems.

### **4. Legal Implications**

- 4.1 All the companies are registered on Companies House by the WMCA Legal Team. The Head of Governance has confirmed that from a legal perspective that he is satisfied that all necessary legal due diligence requirements have been adhered to comply with Companies House procedures. WMCA legal team have had and will respond to any queries received from Companies House regarding any of WMCA's companies.

### **5. Equalities Implications**

Not applicable.

### **6. Inclusive Growth Implications**

Not applicable.

### **7. Geographical Area of Report's Implications**

Not applicable.

### **8. Other Implications**

Not applicable.

### **9. Schedule of Background Papers**