

Audit, Risk & Assurance Committee

Date	21 June 2019
Report title	WMCA Cost Assurance
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Report has been considered by	Not Applicable

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the contents of this report outlining the way in which WMCA manage cost assurance.

1. Purpose

To outline the WMCA processes pertaining to cost assurance for investments forming part of the Investment Programme.

2. Background

2.1 Audit, Risk & Assurance Committee (ARAC) have requested a briefing note on financial due diligence associated with Investment Programme approvals plus the arrangements for ongoing monitoring arrangements of the Programme. This briefing note is intended to fulfil that request.

2.2 The briefing note addresses the requirements outlined by ARAC by providing detail on three specific areas:

- The assurance process and the relevant financial touch points;
- The basis of estimation in capital projects;
- The monthly financial cycle associated with Investment Programme updates.

3. The Assurance Process and the Relevant Financial Touch Points

3.1 ARAC will be familiar with the Investment Programme Assurance Process which is documented under Appendix 1 for ease of reference.

3.2 This process details a three business case approach (from strategic to outline to full business case) that applies to all Investment Programme Projects in securing the necessary amount of WMCA funding required to deliver the project.

3.3 In most cases, the maximum 'necessary amount of WMCA funding' is articulated within the original Investment Programme Devolution Deal, which ensures projects /programmes are operating within a formalised financial ceiling which was considered affordable as an overall programme in 2016; subject to the income supporting the programme being realised.

3.4 The maximum 'necessary amount of WMCA funding' may only be released at Full Business Case stage, subject to an FBC clearing the assurance process which involves WMCA verifying that there are no other opportunities to reduce the WMCA contribution; a process which is detailed further within this note.

3.5 Smaller increments of funding are released at SOC / OBC stage to allow the projects to continue to be developed and those cases are approved in line with the appropriate delegations up to WMCA Board if necessary (i.e. £20 million and over).

3.6 Business Cases are typically submitted into the Assurance Process by sponsoring authorities including the Local Authorities and TfWM / WMCA and will generally include a hook into the original devolution deal agreement in financial terms, particularly at SOC stage.

3.7 Each case is scrutinised via the Assurance Process in a number of forums as detailed below:

Forum	Forum Details	Outcome
Pre Technical Appraisal Panel (TAP)	WMCA TAP members excluding sponsors.	Early assurance view. Cold review of documentation with peers to identify specific areas of concern or areas of improvement in relation to the case.
Technical Appraisal Panel	WMCA TAP members plus the sponsors	Assurance. Business case presented and discussed by TAP with the sponsor. General outcome is that cases are strengthened before the next stage.
Investment Advisory Group	Final assurance before political consideration. Senior WMCA representatives together with LEPs and Local Authorities in attendance.	Endorse (or not) the business case for onward consideration by Investment Board
Strategic Leadership Team	WMCA executive team charged with agreeing the proposal for onward consideration by Investment Board or approving the SOC / OBC if within delegated levels (under £5m)	Endorse (or not) the business case for onward consideration by Investment Board or approve financial ask if under £5m for SOC / OBC only.
Investment Board	Political forum. Decision to approve financial ask based on the assurance work of TAP and IAG. Can approve financial asks up to £20m.	Endorse (or not) the business case for onward consideration by WMCA Board or approve financial ask if under £20m for SOC / OBC only.
WMCA Board	Political Forum. Decision to approve financial ask will be based on the assurance provided by the previous forums.	Endorse (or not) the business case for amounts in excess of £20m.

3.8 The input provided into the assurance process by WMCA finance, particularly during the early stages of the process where the business cases are being developed and refined to ensure they are fit for purpose will generally cover the following topics:

- Consistency with the original Investment Programme and, as such, affordability (in high level terms) for WMCA.
- Assurance from the sponsor (with appropriate evidence) that all 3rd party income supporting the case has been maximised, reducing the burden to WMCA.
- Assurance from the sponsor (with appropriate evidence) that the WMCA contribution request cannot be fully offset / minimised by accessing any value which may arise as a result of the development.
- Seeking assurance that the cost estimates are based on sound foundations relative to the stage of the overall project, including the benchmarking of schemes against similar schemes in the sector if appropriate
- Seeking assurance that the contingency request is adequately supported by a robust assessment of risks, impacts and probabilities.

- Seeking to develop delivery milestones upon which will assist WMCA to align financial payments to tangible deliverables (i.e. land assembly etc).

3.9 It is important to note that the above tasks are undertaken by members of the finance team who have not provided the financial content within the business subject to the review. This provides for a degree of independence and segregation of duties to ensure the financial content of the case is adequately supported by the necessary detailed schedules and professional opinion.

3.10 Where the above questions are not adequately addressed by the case, WMCA Finance will work with scheme sponsors to ensure the appropriate evidence can be verified and obtained and included in the case.

3.11 Once the FBC receives approval by WMCA Board, appropriate legal agreements with scheme sponsors are assembled to ensure that the drawdown of funding accurately reflects the terms agreed as part of the assurance process. Generally (in the case of Wednesbury to Brierley Hill Metro and Coventry Station for instance), where it has been proved that there is a requirement for WMCA to fund a project, the funding from WMCA will go into the project as 'funding of last resort' to enable WMCA to benefit from any cost savings which may arise on completion.

4. The Basis of Estimation in Capital Projects

4.1 The basis of the capital estimate is the responsibility of the sponsor to determine, with scrutiny of those estimates (in terms of verifying the underpinning detail and assumptions) occurring as cases progress through the Assurance Process.

4.2 In the case of TfWM sponsored projects, generally, industry experts (i.e. Network Rail and / or specific consultancy) will be appointed to assist in developing the financial case for the scheme including base cost, risk assessments, cash-flow and funding.

4.3 The accuracy of the cost estimate will be fully dependant on the stage the scheme is at in the life-cycle and, as such, the maturity of the project scope. To counter this, projects at SOC / OBC will generally include greater and / or more generic allowances for contingency.

4.4 In instances where Local Authority partners are delivering the schemes, a similar approach is expected towards the build-up of cost and the supporting documentation is verified as part of the assurance process.

4.5 With respect to Midland Metro Alliance, the costs estimates are built up in a structured way as follows:

- Cost estimates are prepared based on a 'frozen' suite of design drawings either at Preliminary or Detailed Design stage, this enables a 'bottom up' estimate to be undertaken by the MMA Estimating Team.
- The experienced MMA estimators use the frozen designs to prepare a Bill of Quantities (BoQs) by undertaking a 'quantity take off'. These BoQs are then used in conjunction with the construction strategy and programme to calculate a rate (including labour, plant and materials) for undertaking the works, where applicable suppliers are approached to support this process by providing costs for the materials identified in the design information.

- To ensure validity and robustness of the cost estimate, the MMA undertake a series assurance and peer reviews, at which the estimate is challenged and checked by a wide audience from across the Alliance.
- In addition to the internal governance the MMA also engage the Independent Programme Alliance Assurer to undertake an external review of the cost estimate, culminating in a report with findings and recommendations.

5. Change Control and Contingency

- 5.1** The assurance process contains provision to manage change within projects. In such instances where changes relate to cost, change requests may be submitted to the Combined Authority for consideration. Typically, where WMCA have approved a FBC however, any exposure towards cost escalation will sit with the sponsoring authority.
- 5.2** Prior to the approval of a specific FBC (i.e. at SOC / OBC), generally, sponsoring authorities have a degree of flexibility to shape their programmes within the overall financial sum agreed at the outset as contained within the devolution deal, subject to the proposals passing through the assurance process.
- 5.3** Where WMCA / TfWM are the sponsoring authority, then the utilisation of contingency is closely monitored as part of the project governance and reporting. Where WMCA are providing grants to Local Authority sponsors, the default position WMCA will take is that WMCA is the funder of last resort and may therefore benefit from project savings (or un-utilised contingency) on such occasions.
- 5.4** In general the specific lessons learned on individual projects in relation to cost escalation are held by the sponsoring authority.

6. The monthly financial cycle associated with Investment Programme updates

- 6.1** Since 2016, WMCA have operated a monthly financial returns process which both internal and external delivery partners adhere to.
- 6.2** This monthly cycle allows WMCA to be provided with regular monthly updates in terms of cash-flow, the funding cocktail attributable to the scheme and the overall cost to completion.
- 6.3** These detail are then used to provide the monthly updates to Investment Board and other key stakeholders.
- 6.4** The standard templates are provided back to the Combined Authority shortly after the month has closed and the information is consolidated by the WMCA finance team.
- 6.5** Supplementary information is also maintained between the finance teams and the PMO team, in conjunction with the Local Authorities, pertaining to the expected completion [approval] date of business cases.

7. Financial Implications

- 7.1** There are no financial implications as a result of this report.

8. Legal Implications

8.1 There are no legal implications as a result of this report.

9. Equalities Implications

9.1 There are no equalities implications as a result of this report.

10. Inclusive Growth Implications

10.1 There are no inclusive growth implications as a result of this report.

11. Geographical Area of Report's Implications

11.1 Not applicable.

12. Other Implications

12.1 Not applicable.

13. Schedule of Background Papers

13.1 Not applicable.