

Audit, Risk & Assurance Committee

Date	21 June 2019
Report title	WMCA Assurance Report – Arm’s Length Companies
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Report has been considered by	Head of Governance – Tim Martin Director of Public Service Reform – Henry Kippin

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Consider and note the Governance, Assurance and Risk monitoring arrangements for WM5G Limited.
- (2) Note the ongoing Governance, Assurance and Risk monitoring arrangements for WMCA’s other Arm’s Length Companies – Midland Metro Ltd (MML), West Midlands Growth Company (WMGC), West Midlands Rail (WMR) and Capital Development Ltd.

1. Purpose

This report confirms the status of WMCA's Arm's Length Companies and the governance, assurance and risk monitoring arrangements put in place for each company to provide assurance to WMCA. This report primarily focusses on the WM5G Limited which has recently moved from dormant status to operational.

No.	Company Name	Stake	Accounting Treatment
a.	West Midlands Rail Limited	50%	Associate
b.	West Midlands Development Capital Limited	100%	Subsidiary
c.	Midland Metro Limited	100%	Subsidiary
d.	West Midlands Growth Company Limited	5.3%	Investment
e.	West Midlands 5G (WM5G Limited)	100%	Subsidiary

2. Background

- 2.1 To date, WMCA has had 4 Arm's length companies which are active and have been in operation. Assurance has previously been provided to SLT and ARAC on their governance, risk and assurance arrangements. It was agreed at ARAC in January 2019 that a six monthly check in would be undertaken with each of these companies to confirm that the Director of Finance and the Head of Governance continue to be satisfied with the control processes that are in place to monitor their assurance arrangements and any potential risk exposure to WMCA.
- 2.2 To confirm their arrangements, each Arm's Length Company is required to complete an Arm's Length Company Assurance Checklist. For commercial sensitivity purposes the completed checklists have not been shared publically with WMCA ARAC, however they have been shared with the ARAC Chair. Prior to submission, the Director of Finance and the Head of Governance have confirmed that they are satisfied with the arrangements that are in place and they provide sufficient controls for WMCA.

3. WM5G Assurance, Risk & Governance Arrangements

- 3.1 The remit of WM5G is to accelerate the deployment of 5G digital technologies in the West Midlands. Funding of £21 million (£1 million of which has been provided during mobilisation) is initially available from DCMS to support delivery of the 5G project, subject to approval of aforementioned business plans. Regional partners including West Midlands Combined Authority, the region's three LEPs or other local public bodies are required to enable £21 million match funding. Of this initial tranche of £21 million local funding, West Midlands Combined Authority is required to contribute £5.0 million, this will be funded through the Investment Programme and subject to the WMCA Assurance requirements/ appraisal.
- 3.2 WM5G Limited is a Company Limited by Guarantee and a wholly-owned subsidiary of WMCA. Accordingly, WMCA has rights over WM5G Limited by way of the articles of association and member's agreement with WMCA. The aforementioned member's agreement sets out the reporting and reserved matters on WM5G.

- 3.3 WM5G Limited will be managed by its own Board of Directors. However, the member's agreement requires WM5G Limited to provide reports and the business plan to WMCA for review. Moreover, WMCA retains an element of control over WM5G Limited through reserved matters in the member's agreement.
- 3.4 Board will comprise of Dr Henry Kippin, Tim Johnson (MD of Wolverhampton City Council), an independent Chair (Igor Leprince) and director nominated by Department of Culture, Media and Sports (DCMS) – Melissa Giordano. Further 4 Non-Executive Directors are also to be recruited in due course, and in keeping with Government policy an Employee Director will be appointed in due course.
- 3.5 A conflict of interest policy is in place. A Terms of Reference in relation to the Urban Connected Communities Project has been established for the WM5G Board and approved by DCMS. Minutes will be taken of Board meetings as this is a statutory requirement. The Board will meet once every month.
- 3.6 WM5G's Audit Committee set-up will take place by 31 July 2019. Terms of reference and discussions regarding proposed membership will be prepared and agreed with WMCA's S151 Officer and WMCA's Head of Governance.
- 3.7 In keeping with the approach adopted with other Arm's Length Bodies, 5G is an independent legal entity and as such will be responsible for managing its own audit arrangements. They will be required to provide assurance to the WMCA that their arrangements are robust and furthermore that there are no issues of concern that require the consideration of ARAC. As long as these criteria continue to be fulfilled ARAC's role will be limited to the regular checks provided through these reports or any specific work that is commissioned on an ad-hoc basis.
- 3.8 Once WM5G is in full operation mode, all company expenditure will be subject to approval thresholds and a double-lock on expenditure (i.e. requiring two Director approvals). Any further delegations will be approved by the Board of Directors.
- 3.9 WM5G's activities are insured under a group policy with WMCA. Discussions are ongoing between WMCA and WM5G regarding whether WM5G should be under the same policy as WMCA for professional indemnity
- 3.10 WM5G Leadership team review the risk log bi-monthly. The WM5G Board will review the top 5 risks monthly at each Board meeting. Moreover, each work stream lead reports on risks by way of weekly status reports which is then fed into the leadership team. Risk management arrangements and any escalation to WMCA will also being developed with WMCA Officers.
- 3.11 WM5G is responsible for its own business continuity and WM5G is required to prepare a business continuity plan for DCMS by no later than 4 July 2019. However, as certain elements of software will be provided by WMCA to WM5G under a service level agreement, WM5G will rely on WMCA for certain functions. The precise details of the service level agreement remain in draft; WM5G continues to work with WMCA in relation to this agreement.

4. Existing Arm's Length Companies - Confirmation of Arrangements

4.1 WMCA has undertaken a 6 monthly check in with each of the existing Arm's Length Companies and there are no material issues to report that impacts the assurance controls to WMCA or would change the level of assurance previously given to ARAC. There are one or two operational matters that need to be picked up with WMR, WMGC and also WM5G around the operational arrangements in place. This will be picked up with relevant WMCA Officers and WMR, WM5G, WMGC to monitor and action in appropriate timeframes.

No.	Company Name	
a.	West Midlands Rail Limited	<p>No significant changes to arrangements currently in place. Some changes to note:</p> <ul style="list-style-type: none"> - SmithCooper have been appointed as external auditors for WMR Ltd and an external audit is scheduled to be planned in late June 2019. - There are some operational arrangements that WMCA have sought further clarification and assurance on. An action is currently sitting with WMR to provide this, there are no significant issues that impacts the assurance arrangements.
b.	West Midlands Development Capital Limited	<p>No changes to arrangements currently in place. No issues have been raised.</p>
c.	Midland Metro Limited	<p>Key changes of note to the checklist:</p> <ul style="list-style-type: none"> - Board composition – now have 4 directors on the Board from WMCA. Interviewing candidates for Independent Chair - Audit committee – David Lane has agreed to be the Chair of the MML Audit Committee. It will be recommended to the MML Board that Audit Committee is David Lane, Independent Chair, Linda Horne (WMCA Finance Director) and Nafees Arif (Metro Finance & Commercial Director) - There are no material issues have been raised from the MML external audit.
d.	West Midlands Growth Company Limited	<p>There have been no significant changes to the arrangements currently in place.</p> <p>WMGC is looking at future funding opportunities and a group has been established to look at this which includes WMGC, WMCA Finance Director, WMCA Investment & Commercial Director and 2 Constituent Authority representatives. Progress being reported back to WMCA FD group in July 2019. With an update planned to Investment Board in Nov 2019.</p>

5. Financial Implications

N/A

6. Legal Implications

N/A

7. Equalities Implications

N/A

8. Inclusive Growth Implications

N/A

9. Geographical Area of Report's Implications

N/A

10. Other Implications

N/A

11. Schedule of Background Papers

N/A