

## Audit, Risk & Assurance Committee

<b>Date</b>	8 September 2020
<b>Report title</b>	Review of Governance Procedures and Risk Impacts of the COVID 19 Pandemic
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<b>Report has been considered by</b>	WMCA Senior Leadership Team

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

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

- (a) Note the information in this Report.

## 1. Purpose

- 1.1 This report reviews the impact of Covid 19 on the corporate governance procedures of the Combined Authority and presents the revised Strategic Risk Register. The report also takes the opportunity to touch on progress with regard to the Authority's response to the Comprehensive Spending review anticipated for the Autumn and the submission in respect of the forthcoming Government White paper on Devolution and "levelling up".

## 2. Background

- 2.1 The Covid 19 pandemic has brought about unprecedented challenges to the continuance of normal activities to both individuals and organisations in the UK. Both the scale of the impacts and the speed at which hitherto unthinkable restrictions and changes have had to be introduced has been a significant challenge for all organisations.
- 2.2 For public authorities it has posed the twin challenges of being both swift and responsive in a time when normal employee practices have been severely disrupted and maintaining robust and transparent governance when the usual mechanisms for delivering that are not able to be followed.
- 2.3 Whilst it is becoming apparent that some form of restrictions on what was previously seen as normal life are likely to persist for the short to medium term, and although there are still many public health challenges facing society, there is a gradual normalisation in progress which makes this a good time to review where we are with regard to governance and risk.
- 2.4 **Decision-making processes.**

Following the initial decision to impose lockdown it was impossible to maintain the normal public meeting arrangements for WMCA Boards and Committees and a number of meetings were cancelled. Inevitably some decisions were simply postponed however in some cases reliance was placed on the Chief Executive's delegated power to take urgent action in the interests of the authority. A mechanism was put in place to ensure that any key decisions that had to be taken in this way had the informal approval of Board members.

Parliament subsequently enacted Regulations to enable local authorities (including WMCA) to hold formal meetings by remote attendance. This meant that we were able to re-start our normal meeting arrangement albeit through the medium of video conferencing.

There have now been a substantial number of meetings held in this way including two Board meetings, two Scrutiny Committees, one meeting of ARAC before today, and a number of thematic Boards and meetings of Investment Board. These meetings have been successful with few apparent obstacles to the transaction of business and the making of decisions. One side effect has been a more effective use of time for participants who would otherwise have had to travel from different parts of the region to be present. The meetings are subject to the same formalities as before in terms of freedom of information, the publication of agendas and the ability of the public to observe the meetings (via webcasting)

## 2.5 **Internal Decision-making**

The Authority's internal decision-making processes such as Senior leadership team and other meetings have all proceeded in the same way. As was highlighted in the report that was presented to Board on 5<sup>th</sup> June. the majority of WMCA staff remain working remotely however in the short to medium term this appears to be working well overall. At this stage there has been no anecdotal evidence of a reduction in productivity and the organisation has been able to meet its own internal and externally set deadlines and targets. Work continues to consider what the future workplace will look like however it seems premature to make any specific predictions for now.

## 2.6 **Regional Response**

The Authority has been a key participant in regional local resilience forum activity (LRF) It has been a key member of the Strategic Coordinating group chaired by WM Police and we have taken on the responsibility for organising and chairing the Recovery Coordinating group. Membership of these groups gives the Combined Authority the opportunity to be at the heart of the pandemic planning and decision-making and has afforded a number of important opportunities for added value where we can act and convene on a regional basis.

The RCG has in particular has led on the planning for the lifting of lockdown and the re-opening of the retail sector. The Transport Cell, part of the LRF structure and led by TfWM, has ensured a multi-agency coordinated response to managing transport through lockdown to the current recovery stages in order to provide a safe and secure network for those that needed it most. In the current stages the Cell is coordinating with partners the continued monitoring of the network through data and intelligence and the scale up of services to support the easing of lockdown and the return to work and school on bus, rail and tram. A particular example is the re-purposing of ring and ride services to provide shuttle services from key transport hubs to NHS facilities. The cell has maintained an operational order to direct the response to government guidance regarding transport.

A key contribution we have been able to make has been around planning the response of the public transport network through the scaling back and subsequent reinstatement of network services on both bus, rail and tram.

The Combined Authority has also played a substantial role in leading and convening the region's economic response to the pandemic, complementing and supporting activity a both a regional and national level. The Covid-19 economic impact was formed early in the crisis, bringing together over 40 of the region's business, political, university and trade union leaders who continue to meet weekly. They have acted to identify and lobby government to address gaps in support to mid-sized firms, self-employed people. More recently, they have helped share vital insight across major businesses from different sectors about how the transition from lockdown is supporting business recovery.

The Economic Impact Group, plus the Strategic Economic Development Board and Recovery Forum are guiding an approach to economic recovery that is agile, where the right interventions are delivered at the right moment to meet economic and social needs. This approach supported the development of the Recharge West Midlands submission to government ahead of the financial statement in July and continues to support ongoing work on a more substantial economic strategy refresh.

## 2.7 **Other Governance Implications**

The Authority was able to hold a quorate meeting of ARAC on 14<sup>th</sup> July by remote attendance which signed off the Annual Accounts under powers delegated from WMCA Board.

The Mayoral Elections which had been scheduled for May 2020 have been postponed until 6<sup>th</sup> May 2021 along with other local authority elections and elections for the police and Crime Commissioner. Contingency planning is ongoing with regard to the holding of a Covid-safe election based on the assumption that we may still be under some restrictions at that point. The Mayor's term of office is thereby extended, and other political appointments continue.

Apart from some minor consequential changes the appointments by Constituent and non-Constituent Authorities to the Combined Authority have been rolled forward for another year.

## 2.8 **Impacts on Future Governance Arrangements**

We will continue to monitor the effectiveness of the current governance procedures as the situation changes. The Constitution has allowed decision-making to go forward but we are reviewing arrangements to ensure they are fit for purpose in the light of the altered circumstances. As highlighted, no major issues have been disclosed during the period since the remote decision-making regulations were published and there have been no further delays with making key decisions. Over time of course it may be felt that remote meetings reduce the liveliness of debate and the ability to hold the Authority to account although this has not been suggested at this stage. There is some anecdotal evidence that remote meetings can facilitate higher attendance due to the lack of travelling time and making it easier to juggle diary commitments.

We are following the situation around guidance on the use of office and meeting space. At the moment it is unlikely that we would be able to accommodate larger meetings at Summer Lane whilst providing the required social distancing measures. We are remaining in contact with other local authorities in the region and are not aware of any who have restarted face to face democratic meetings at this point in time.

Whilst not wishing to trivialise the disruption to normal life and our normal processes, it is our assessment at the moment that the alternative arrangements put in place to facilitate governance have provided the requisite levels of control and assurance together and have not introduced a "chilling effect" on political debate and decision-making.

### **Revenue Budget Implication**

2.9 The financial impact of the Covid-19 pandemic and lockdown measures continue to have a detrimental impact on the Combined Authority's finances. The day to day financial position has been and will continue to be closely monitored through the Executive team and in consultation with the Finance and Investments Portfolio Holder. The Chairs of Overview and Scrutiny Committee and Audit Risk and Assurance Committee will continue to be briefed on actions taken as a result of the crisis as necessary.

2.10 The most significant financial impact of the crisis is the loss of commercial revenue within the Transport Portfolio. It is important to note that TfWM is continuing to see drops in income and the commercial bus and metro network is still seeing extremely low levels of patronage, however, the Government has recently confirmed that the Combined Authority is able to access a package of funding to support a proportion of the loss of income from fees and charges for services. This intervention will help to mitigate losses of

transactional income from customer and client receipts such as car parking charges and bus station departure charges.

- 2.11 The Department for Transport has also indicated that short-term funding for Metro in the form of Light Rail Restart Grant, intended to provide financial support to enable services to continue whilst needing to implement social distancing measures will continue beyond the original award up to 3 August 2020 and will now continue until 31 October 2020, ensuring the short-term financial viability of Midland Metro Limited operations. We will continue to lobby government directly and nationally through the Combined Authority Network and the M9 group for financial assistance for Combined Authorities to mitigate the financial impact of the pandemic.
- 2.12 An initial high-level forecast of the anticipated position for the current year reported to WMCA Board on 24 July 2020 indicated a significant budget deficit for the year of £11.1m. The Finance Team worked with the business over the following weeks to refine the latest forecast taking into consideration the additional government grants awarded and reforecasting income streams based on the latest available information. This work has enabled an improved forecast budget deficit for the year of £2.0m. It is proposed that this deficit is met from existing earmarked reserves prudently set aside at the end of the 2019/20 financial year as the crisis began to unfold should further government support not be forthcoming.
- 2.13 The improved position would not have been possible to achieve without proactive action taken to generate significant in-year efficiency savings across the portfolios. Actions taken include a review of vacant posts and curtailment of discretionary spending on marketing and events and other non-essential overheads. A programme of productivity and efficiency savings has now been developed to deliver organisational operating savings along with a fundamental business transformation review also underway, to deliver efficiencies into the next financial year and beyond.
- 2.14 Whilst there is a significant gap in funding emerging in future years in the Medium-Term Financial Plan, this is being addressed corporately by reviewing transformation opportunities and potential efficiency savings. Discussions with Chief Executives and Leaders of Constituent Authorities are now taking place to begin to shape the Combined Authority's 5-year Medium-Term Financial Plan from 2021/22 onwards. The following actions are currently being developed:
- A fundamental rebase and reset of the MTFP position following an assessment of the financial impact of the mitigating actions aiming to bring the 2020/21 forecast within budget.
  - Review of existing funding mechanisms including the levels of Constituent and Non-Constituent member contributions.
  - Continue to lobby the government for a sustainable funding solution.
  - A portfolio policy review by Leaders to determine the region's priority options with which to target potentially limited resources.
- 2.15 An update on the emerging Medium-Term Financial Plan position will be provided to the committee in due course.
- 2.16 Given the inherent uncertainty around the significant number of constantly changing assumptions that underly the latest forecast position for 2020/21 and the medium-term position for 2021/22 onwards, it's important to note that current indications represent a best estimate at this point in time. The underlying assumptions are changing on a daily

basis, leading to movements in the forecast and medium-term position and will therefore be kept under constant review.

- 2.17 At this stage the Combined Authority's S151 Officer is content that the Authority has sufficient financial resilience not to trigger a requirement for a s114 notice where by law the Chief Finance Officer is required to suspend spending should expenditure be likely to exceed available resource in a given year.

### **Supply Chain Management**

- 2.18 Additional assurance measures have been put in place to ensure procurement of contracts and supply of goods or services remain valid and viable, in terms of supplier resilience and capability and capacity to deliver and also in terms of value for money. The Combined Authority's capital investment programme continues to be delivered although delivery timescales may be impacted as programmes are rescheduled with a potential effect on the realisation of the project benefits for the West Midlands region.
- 2.19 In respect of supply chain risk, the Combined Authority is following guidance issued by the Cabinet Office in late March 2020: 'Procurement Policy Note - Supplier relief due to COVID-19'. This Procurement Policy Note sets out information and guidance for public bodies on payment of their suppliers to ensure service continuity during and after the current coronavirus, COVID-19, outbreak. The Authority acted immediately to ensure suppliers at risk are in a position to resume normal contract delivery once the crisis is over

Actions taken include:

- critical suppliers were informed they will continue to be paid as normal (even if service delivery is disrupted or temporarily suspended);
- the most appropriate payment measures have been put in place to support supplier cash flow including payment on profile (in respect of bus operators for example) or based on the average monthly payment over the previous three months (in respect of adult education providers for example). To qualify for this support, suppliers were required to agree to act on an 'open book' basis and make cost data available to the Authority during this period and they were also informed they should continue to pay employees and flow down funding to their subcontractors; and
- ensuring invoices submitted by suppliers are paid immediately on approval in order to maintain cash flow in the supply chain and protect jobs.

### **Cash Balances and Reserves**

- 2.20 The Combined Authority's own cash position remains healthy as government grants come in at the start of the financial year and the treasury position is being monitored daily along with the financial markets to ensure our cash investments remain secure.
- 2.21 Continual cash-flow forecasting is undertaken at a short, medium and long term level to ensure that the Combined Authority is able to plan ahead and continually monitor the financial environment assisted by sector specialists. This will ensure that there are sufficient lenders in place to borrow from in a timely and affordable manner when the need arises. The availability of funds to meet liabilities is ensured through the continuation of detailed cash planning and ensuring liquid products which also offer protection from loss are maximised.

As a result of crisis, it is likely that the Authority will seek out more secure investments for available cash, thereby reducing the exposure to security risk in the current market.

- 2.22 The Combined Authority is already seeing some cash flow management impacts as grants from central government appear to be being received at a slower pace, one example being the Devolution Deal Grant, paid mid-April in 2019 which was actually paid towards the end of May in 2020. It's possible this is as a result of the squeeze on UK Government funds in light of recent events. Again, these are being managed through proactive forecasting and a regular dialogue with the relevant stakeholders.
- 2.23 The Combined Authority has a general fund balance of £2.3m at the start of 2020/21. In addition, the Combined Authority has balances of £26.6m in general fund earmarked reserves at the start of the year. This balance includes amounts earmarked for specific risks (including COVID-19) which will remain present in the Authority's planning environment independent of the COVID-19 crisis.
- 2.24 At the end of 2019/20, the Combined Authority prudently created a specific COVID-19 reserve of £1.3m from savings in the year. This clearly only represents a small proportion of the estimated financial impact of the crisis but has helped to cushion the financial impact on the Combined Authority.
- 2.25 The Combined Authority has also prudently provided for anticipated credit losses at a higher level than in previous years as a result of the crisis, in relation to its exposure to repayment of loans through the Collective Investment Fund and its wholly owned subsidiaries.

### **Debt Management**

- 2.26 All of the Combined Authority's historic borrowing is at fixed rates so there is no significant impact as a result of the pandemic. The Authority is currently forecasting a need to borrow in the region of £300m during 2020/21 to fund its capital programmes (including the Investment Programme). However, as programmes encounter rescheduling, it's likely the actual value of borrowing will be significantly lower. This will result in a reduced in year cost of borrowing, however this position is anticipated to be partially offset by yields (the return on our cash investments), which are anticipated to be lower in 2020/21 than 2019/20 as a result of needing to invest in short term lower risk instruments so the net impact on the revenue budget is not likely to be material.
- 2.27 It's likely that the currently low rates for medium to long term borrowing will continue for a period of time, particularly as the UK enters a recession as a result of the crisis.

### **3. Comprehensive Spending Review**

The Comprehensive Spending Review (CSR) is the process through which Government sets its multi-year capital and revenue spending plans. Due to unprecedented uncertainty, the Chancellor has not fixed a set spending envelope, but confirmed that departmental spending (both capital and resource) will grow in real terms across the CSR period. The result of the CSR will be announced in October/November and will cover departmental revenue spending from 2021/22 to 2023/24 and capital programmes from 2021/22 until 2024/25. The WMCA is preparing a submission to the CSR, that will be considered by CA Board on 18<sup>th</sup> September, ahead of a 24<sup>th</sup> September submission deadline.

Government's guidance indicates that the CSR will prioritise:

- strengthening the UK's economic recovery from COVID-19 by prioritising jobs and skills
- Levelling up economic opportunity across all nations and regions of the country by investing in infrastructure, innovation and people – thus closing the gap with our competitors by spreading opportunity, maximising productivity and improving the value add of each hour worked
- improving outcomes in public services, including supporting the NHS and taking steps to cut crime and ensure every young person receives a superb education
- making the UK a scientific superpower, including leading in the development of technologies that will support the government's ambition to reach net zero carbon emissions by 2050
- strengthening the UK's place in the world
- improving the management and delivery of our commitments, ensuring that all departments have the appropriate structures and processes in place to deliver their outcomes and commitments on time and within budget

The Chancellor has also emphasised that this CSR provides the opportunity to deliver on the third phase of coronavirus recovery activity, including commitments made in the March Budget to rebuild, level up and invest in people and places spreading opportunities more evenly across the nation.

The region has an opportunity to influence Government's choices through

- (i) a direct submission to HM Treasury and
- (ii) proactive engagement with spending departments on their priorities in order that they align with the West Midlands' priorities.

The submission will be regional, incorporating input from constituent and non-constituent members. It will be mindful throughout of coordination with other 'independent' submissions – including from the M9, LEP Network, Core and Key Cities' groups, LGA, and others. It will not always be possible to ensure complete alignment, but there should be efforts to build on each other's work.

As set out in the diagram below, the submission will be broken down into four thematic projects, that taken together will embed the region's shared priorities of:

- Levelling Up – closing regional gaps, boosting productivity, increasing human capital
- Green Recovery – creating a fairer, greener, healthier region post-COVID

Strategic Narrative:  
Levelling Up and Green Recovery

**Project 1:  
Infrastructure**

Housing, Transport, Energy,  
5G

To Include:  
WMCA Investment Programme  
Recharge WM Asks  
National Infrastructure Commission

**Project 2:  
Improving Outcomes in  
Public Services**

Prevention, Wellbeing,  
Education, Early Years,  
Crime

To Include:  
Community Recovery  
Regional Health Impact of COVID

**Project 3:  
Economy**

Economic Recovery, Skills,  
Innovation, Trade and  
Investment

To Include:  
WMCA Investment Programme  
Business Support Programme  
Economic Recovery inc. Recharge Asks  
UK Shared Prosperity Fund  
R&D and Innovation Funding

**Project 4: Sustainable Funding**

Capacity Funding, Public Investment, and Fiscal Devolution (for CA, LA, and LEPs)

The region's CSR submission will also build upon the contributions to the Local Recovery and English Devolution White Paper, and take account of Government's direction on its contents, as well as Economic and community recovery activity, including the proposals outlined in the Recharge WM investment proposition and by the Recovery Coordination Group.

#### 4. Further Devolution

Government has indicated that it wants to strengthen devolution across England and that the regions should play a key role in the economic recovery from Covid-19, with a White Paper on Devolution and recovery expected in early Autumn. An initial proposal from the region, was submitted to government on 7<sup>th</sup> August to influence the development of this work, based on the output of a Devo Next policy programme commissioned by the Mayor and Leaders in February, and taken forward by the Devolution Strategy Group.

The paper concentrates on a range of asks centred on structures/devolution, capacity and funding, and powers based on 4 key principles:

1. **A whole system approach** – including all local agencies in delivery, not just focusing on devolution the Combined Authority
2. **Subsidiarity** – including double devolution - to ensure that local authorities both benefit directly from the process and can make their full contribution - and triple devolution – empowering local communities.
3. **Sustainability** – putting the finances of both local authorities and the combined authority on a sustainable footing and focusing on prevention and long-term economic change (including zero carbon).
4. **Simplicity** – improving the clarity of how metropolitan governance works and accountability to local people.

It was also agreed that devolution should be based on a broad approach to “levelling up” and achieve outcomes on the Future Economy, Health and Wellbeing, Homes and Places and Connectivity – not just on narrow economic growth.

## **5. Strategic Risk Update**

The Strategic Risk Register (attached as Appendix 1) has been reviewed and updated with particular reference to the Covid 19 situation. There are some obviously enhanced risks around the Authority’s financial situation as reported elsewhere in this paper and which are in common with other local authorities. The assumptions around the economy are also subject to significant uncertainty, due to the continued fall out of the pandemic and the potential for a second spike in infections, and on the ongoing negotiations around the end of the EU Exit transition period in December. This therefore means there are likely to be significant changes in public policy across a broad range of areas.

The pandemic has also caused some knock-on effects in regard to major projects particularly around delivery. At the moment delivery is still considered to be on track around Commonwealth games related infrastructure projects.

Capacity in the organisation is also something that we are monitoring due to the additional workloads brought about but pandemic planning and changes to plans/projects and numerous new initiatives as a result of the current situation.

The Strategic Risk Register will continue to evolve as the long term implications of Covid 19 play out and officers will continue to develop the document through regular review.

## **6 Financial Implications**

The Financial implications are dealt with in the body of this report.

## **7. Legal Implications**

There are no specific legal implications arising out of this report. The WMCA is required to maintain robust and lawful governance and decision-making during the current pandemic and this has been achieved to date. We will continue to monitor changes to guidance and policy especially as it relates to decision-making and meetings. The Regulations permitting decision-making by remote attendance are currently in place until May 2021 at which stage it will be clearer what the long-term situation is likely to be.

## **8. Equalities Implications**

There are no specific equality implications arising from this report however Members will be aware of a range of emerging findings over the impact of Covid19 on different groups and communities within our Region. The WMCA is working with partners and stakeholders to review this data and where appropriate to work with others to put in place a range of measures to respond to these challenges.

## **9. Inclusive Growth Implications**

To an extent the comments in paragraph 9 above are relevant here also. Covid19 has had a significant impact on the local economy and the Combined Authority is already working on responses to this as set out earlier in this report.

**10. Geographical Area of Report's Implications**

The matters in this report relate to both the Constituent and non-Constituent areas of the Combined Authority.

**11. Other Implications**

There are none.

**12. Schedule of Background Papers**

WMCA Board report 5<sup>th</sup> June 2020 – Covid 19 Actions taken by Officers