

Audit, Risk & Assurance Committee

Date	4 March 2021
Report title	Assurance Report – Arm’s Length Companies: Assurance & Governance Arrangements
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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) Consider and confirm that ARAC are satisfied with the assurance arrangements that have been established and confirmed for all of WMCA’s Arm’s Length Companies.
- (2) To note the structure and purpose of each of the companies, all of which are registered and adhere to the requirements of Companies House.

1. Purpose

- 1.1 An annual review of the governance and assurance arrangements for all of the Arm's Length Companies where WMCA has a shareholding was introduced in 2019 following a request by this committee. The activity provides internal assurance that appropriate lead officers have reviewed, and are satisfied with all arrangements that are in place which have been assessed via completion of a checklist that has previously been reviewed and agreed by ARAC. Details on the areas of assurance being sought can be found in the checklist template, provided as appendix 1 for information.
- 1.2 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 for 2020/21. This is to provide assurance that appropriate lead officers are satisfied with the governance and assurance arrangements in place.

2. Background

- 2.1 The WMCA currently has 5 active Arm's Length Company relationships, namely;

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

- 2.1.1 This report primarily focuses on confirming the arrangements of the first 4 companies listed a-d. These are the companies that the West Midlands Combined Authority has the largest shareholding interest and therefore could have a greater impact on operational and strategic risk.

2.2 WM5G Ltd

- 2.2.1 WM5G is a private company limited by guarantee, it was established in February 2019 with its purpose being to accelerate the benefits and deployment of 5G throughout the region. The company is a wholly owned subsidiary of WMCA with the structure of the board including an independent chair, 2 non-executive directors, WMCA being represented by the Investment and Commercial Activities Director, and the Department for Digital, Culture, Media and Sport (DCMS) being represented with 2 members having observer status. Legal agreements are in place formalising the relationship between WMCA and WM5G Ltd, and Terms of reference for the Board are in place as agreed by DCMS and detailed in the Articles of Association.
- 2.2.2 Delivery against WM5G's initiatives are included in the WMCA Industrial Strategy and is monitored through the WMCA's membership at the Urban Connected Communities Strategic Board (via the WMCA CEO), and the WM5G Ltd Board (via the Director Public Service Reform and Managing Director of Wolverhampton City Council). WM5G Ltd activity is also subject to scrutiny by DCMS and the National Audit Office.

- 2.2.3 A number of support services are provided by WMCA through a Service Level Agreement, these include Legal, Data Protection, Business Continuity and Insurance. WM5G manage their financial, risk management and procurement activities directly through the utilisation of WMCA systems. Regular reporting is maintained, as defined within a Members agreement which also contains measures enabling WMCA to maintain control over WM5G through reserved matters.
- 2.2.4 An audit of the WMCA's governance and management arrangements for WM5G Ltd was completed as part of the 2019/20 Internal Audit plan and concluded with a substantial audit rating.

2.3 West Midlands Development Capital Ltd

- 2.3.1 West Midlands Development Capital Ltd (WMDC) is a private limited company and was established in May 2017. The purpose of the organisation is to act as the Fund Manager for 2 WMCA investment funds and an Investment Advisor for the Brownfield Land and Property Development Fund, and the Collective Investment Fund.
- 2.3.2 WMDC is a wholly owned subsidiary of WMCA with legal agreements in place between the two organisations. Both WMCA and non-WMCA directors sit on the board which includes an independent member. WMCA is represented by the Finance Director and the Director of Strategy.
- 2.3.2 WMDC liase directly with the Housing and Regeneration directorate within WMCA and provide a fund monitoring dashboard to the Investment Advisory Group and Investment Board each month.
- 2.3.3 The organisation does not undertake any purchasing activities, is combined within WMCA's Data Protection arrangements including being subject to the associated policies and procedures, and an external auditor (Smith Cooper) has been appointed to audit the financial accounts. The Finance Director has confirmed they are satisfied that adequate assurance arrangements are in place for this company.

2.4 Midland Metro Ltd

- 2.4.1 Midland Metro Ltd (MML) was established on 24 June 2018 and operates the current Metro operations within the West Midlands. MML is a wholly owned subsidiary of WMCA with the Board consisting of 3 director's from WMCA; these include the Finance Director, Managing Director, TfWM, and the Director of Customer Experience, TfWM who is currently seconded to MML full time, covering the role of MML Managing Director. There are no independent members of the Board.
- 2.4.2 Legal agreements, including a Public Service Contract and Shareholders Agreement, are in place formalising the relationship between WMCA and MML. WMCA Board approved these arrangements at its meeting in February 2018.
- 2.4.3 WMCA provides a number of support services to Midland Metro Limited including Procurement, Finance, and Legal, of which all follow the WMCA's policies and procedures to ensure conformance of associated regulations.

- 2.4.4 Comprehensive Health and Safety, business continuity, risk, data protection and insurance arrangements are in place to ensure the safety, security and continuity of its service to manage the increased risk environment contained within a light railway infrastructure. The service provision is regulated by the Office of Road and Rail (ORR) and the Light Railways Safety and Standards Board (LRSSB).
- 2.4.5 MML has contracted with an external audit firm (BDO LLP) for the purposes of auditing their financial accounts which are reported to the MML Board. The accounts for 2019/20 were filed with Companies House on 17 February 2021 in line with statutory requirements. Going forwards starting with the 2020/21 financial year, Audit, Risk and Assurance Committee will consider and approve MML's accounts prior to them being filed with Companies House in line with agreed assurance arrangements for the company. MML's accounts for 2019/20 can be found elsewhere on this agenda.
- 2.4.6 The governance and management arrangements between MML and WMCA was reviewed as part of WMCA's 2018/19 Internal Audit plan and concluded with a satisfactory audit rating.

2.5 West Midlands Rail Ltd

- 2.5.1 West Midlands Rail (WMR) is a company limited by guarantee, it is owned by WMCA and the partner authorities, and was created with the purpose of specifying and managing the West Midlands Rail franchise. WMCA has a 50% shareholding in the company. The company has a legal agreement in place with all its members and has been operating since March 2017. The Board consists of 14 Full Member authorities who each appoint Directors to the Board, and 2 affiliate authorities who hold observer status. The Managing Director, TfWM attends all WMR Ltd Board meetings as the representative for WMCA.
- 2.5.2 The company is based at WMCA's head office under a Service Level Agreement with Legal, Governance, Finance, Procurement, and Data Protection services being provided by WMCA including the adoption by WMR Ltd, of its associated policies and procedures.
- 2.5.3 WMR Limited has contracted with an external audit firm (Smith Cooper) for the purposes of auditing their financial accounts which are reported to the WMRL Board.
- 2.5.4 An Internal audit of the governance and management arrangements between WMCA and WMR Ltd was completed by WMCA as part of the 2019/20 audit plan and concluded with a satisfactory audit rating. Work continues on delivery of the actions identified and will be reassessed as part of a follow-up audit in due course.

2.6 West Midlands Growth Company

- 2.6.1 The West Midlands Growth Company Ltd (WMGC) is a private company limited by guarantee and was established in 1982. The company's purpose is to seek and attract businesses, visitors and capital investment to the region to meet their vision of a confident and prosperous West Midlands where everyone shares an improved quality of life. WMGC Ltd is an Investment and WMCA holds a 5.3% stake.
- 2.6.2 A legally agreed Service Level Agreement, Memorandum of Understanding and Concession agreement are in place between the two companies. The Board comprises of 20 directors, with WMCA being represented on the Board by its Chief Executive.

- 2.6.3 Independent arrangements are in place for all assurance related matters and are reported to the company's Audit and Risk Committee which meets quarterly.
- 2.6.4 Given the limited investment and risk exposure that WMCA has in WMGC, it is satisfied that the assurance arrangements in place are satisfactory and a detailed review is not required.

3. Financial Implications

- 3.1 The 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 The Head of Governance has confirmed that from a legal perspective he is satisfied that all necessary legal due diligence requirements have been adhered to and 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

Appendix 1: WMCA Risk & Assurance Checklist template

WMCA Risk & Assurance Checklist for Arm's Length Companies

Overview		Notes		
1.	Summarise the remit of the organisation?			
2.	Summarise what success looks like for the interfacing organisation and what measures are in place to monitor its success?			
Legal		Yes	No	Notes
3.	Confirm the legal interface with the arm's length company and the WMCA?			
4.	Are there clear legal agreements in place to describe the relationship and interface with the company and WMCA?			
Governance		Yes	No	Notes
5.	Description of the arm's length company interface with WMCA governance			
6.	Is the board of sufficient size and composed of appropriate skills to ensure its responsibilities are met?			
7.	What is the balance between executive and non-executive board members? Confirm the independent members of the Board, their appointment process and the duration of their appointment.			
8.	Is there a terms of reference for the Board? Are minutes taken for board meetings? A statement of how the board operates.			
9.	Is there a conflict of interest policy?			
10.	Has anybody on either board declared a conflict, if so how is this going to be mitigated?			
11.	Please confirm that the Arms Length Company Audit Committees to include an up-to-date annual return of this checklist, signed, with their Annual Governance Statement and External Audit Report to enable ARAC to take appropriate assurance.			

Financial		Yes	No	Notes
12.	Are adequate company internal financial regulations (or the equivalent) in place?			
13.	Have the content and frequency of financial performance reporting to WMCA been agreed?			
14.	Is there agreement for the company to supply an Audited Set of Accounts annually to WMCA?			
15.	Has the content and the deadline of the supply of all relevant and necessary year-end financial information been agreed between WMCA and the company?			
Procurement		Yes	No	Notes
16.	Does the company have its own procurement policies and processes? Has the WMCA procurement team confirmed that these are aligned to WMCA standards?			
17.	How is procurement non-compliance captured and reported?			
18.	In what name will your contracts be awarded in?			
19.	In what name will your purchase orders be in?			
20.	Do you have your own financial procurement to pay system (i.e. Business World) and e-tendering portal?			
21.	What is the agreed mechanism for contacting the WMCA procurement team?			
Internal & External Audit		Yes	No	Notes
22.	Dependent upon the nature of any company - Strategic Report (which follows the FRC's "Guidance on the Strategic Report") – including where assurance is obtained on the contents and disclosures in the report.			
23.	Annual Governance Statement (AGS) / Statement of Internal Control			

24.	If the accounts are subject to external audit – a copy of the External Audit Annual Report (what were their findings/comments on the accounts or the AGS)			
25.	Do they have internal audit – if so, a copy of the Annual Internal Audit Report (and similarly any key issues they may have commented upon).			
26.	There may also be other ‘assurance’ providers such as government agencies/bodies who may come in and review certain grants or funding streams etc.			
27.	Is there an internal audit function for the organisation?			
28.	Is there an audit committee? If so, how often does it meet? Please confirm the membership of the committee including independent membership.			
29.	Who are the external auditors?			
Risk Management/ Insurance & Business Continuity		Yes	No	Notes
30.	Is there are a risk management policy for the organisation? What is the greatest risk/ affecting the company?			
31.	Provide overview of risk governance structure for the organisation?			
32.	Are there any risks that could impact WMCA adversely?			
33.	What is the agreed mechanism of risk escalation to the WMCA?			
34.	Does the organisation have adequate insurance for its level of operations? Please provide evidence			
35.	Are there adequate business continuity arrangements and plans in place?			