

ANNUAL GOVERNANCE STATEMENT

2020/2021

Scope of Responsibility

This Annual Governance Statement (AGS) reflects the activities of the Authority from 1 April 2020 to 31 March 2021.

The Authority is made up of seven metropolitan district councils, constituent and non-constituent members, three Local Enterprise Partnerships (LEPs), six observers and one co-opted member.

The Authority's Constituent members consist of the seven district councils across the region:

- Birmingham City Council
- City of Wolverhampton Council
- Coventry City Council
- Dudley Metropolitan Borough Council
- Sandwell Metropolitan Borough Council
- Solihull Metropolitan Borough Council
- Walsall Metropolitan Borough Council

The non-Constituent members of the Authority are comprised of non-constituent authorities and LEP members:

Non-constituent authorities

- Cannock Chase District Council
- North Warwickshire Borough Council
- Nuneaton and Bedworth Borough Council
- Redditch Borough Council
- Rugby Borough Council
- Shropshire Council
- Stratford-on-Avon District Council
- Tamworth Borough Council
- Telford and Wrekin Council
- Warwickshire County Council

LEP members

- Black Country LEP
- Coventry and Warwickshire LEP
- Greater Birmingham and Solihull LEP

There are also six Observers of the Authority. These are:

- Warwick District Council
- The Marches LEP
- The Young Combined Authority
- West Midlands Fire and Rescue Authority
- West Midlands Police and Crime Commissioner
- Young Combined Authority

There is one member co-opted to the WMCA Board at the discretion of the WMCA Board. They are:

- Trade Union Congress Midlands (TUC)

The authority currently has seven active Arm's Length Company relationships; namely

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.	WM5G Limited	100%	Subsidiary
f.	HTO1 LLP	50%	Associate
g.	HTO2 LLP	50%	Associate

For each of the arm's length companies¹ where WMCA owns a 50% or greater share of the organisation, an annual assurance and governance checklist has been completed to confirm all legal and financial controls have been satisfied. In addition, confirmation of wider assurance and governance is approved.

HTO1 LLP is a newly established Limited Liability Partnership incorporated on the 3rd March 2021. The members are WMCA and the City of Wolverhampton Council (CWC) both of whom hold 50% voting rights. The business of HTO1 is to carry out the business of HTO2.

HTO2 LLP is a newly established Limited Liability Partnership incorporated on the 3rd March 2021. Its members are HTO1, WMCA and CWC. WMCA & CWC both hold 50% voting rights. The business of HTO2 is the acquisition, development and management of 100 Units at The Marches, Wolverhampton for the purpose of providing Affordable Housing with a view to profit and to create an affordable home ownership model.

The assurance and governance checklist for both HTO1 and HTO2 is currently being finalised.

WMCA is an enabling body which brings together the political leadership in the region; reinforcing and strengthening existing partnership arrangements to help co-ordinate strategic economic planning and drive forward inclusive economic growth.

The Purpose of the Governance Framework

The Authority is responsible for ensuring that business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for and delivers value for money.

To demonstrate good corporate governance, the Authority carries out its functions in a way that provides accountability, transparency, effectiveness, integrity and inclusivity; enabling the Authority to pursue its vision and secure its agreed objectives in the most effective and efficient manner and in line with the approved Constitution.

In discharging this overall responsibility, WMCA Leadership Team and Statutory officers are responsible for putting in place proper arrangements (known as a Governance Framework) which comprises the legislative requirements, systems and processes, cultures and values. This enables the Authority to govern its affairs, facilitate the effective exercise of its functions, which includes

¹ With exception to H2O1 LLP and HTO2 LLP which have recently been established.

arrangements for the management of risk, in addition to exercising leadership and being held accountable for its decisions and activities.

The Authority has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives; and evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Authority has a strategic risk register, which is regularly reported to and reviewed by Audit, Risk and Assurance Committee (ARAC) and the WMCA Senior Leadership Team. A new Strategic Risk Framework is being developed to provide visibility of risk at strategic, operational, and programme levels and to ensure consistency across Directorates in how risks are identified, managed, monitored and escalated. The aim is for an integrated approach to risk management and processes will be developed alongside the organisation's performance management framework as it is being developed together with training and support to embed this new approach.

Annual Governance Statement

This Annual Governance Statement meets the requirements of Regulation 6(1) (b) of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement.

The Authority demonstrates compliance with the seven core principles of good governance set out in the latest CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016).

These seven principles are:

- (a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- (b) Ensuring openness and comprehensive stakeholder engagement.
- (c) Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- (d) Determining the interventions necessary to optimise the achievement of the intended outcomes.
- (e) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- (f) Managing risks and performance through robust internal control and strong public financial management.
- (g) Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

The Governance Framework

a) Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

The Code of Conduct is laid out in the Constitution and was updated in March 2021 following the issue of a revised model of the Code of Conduct by the Local Government Association (LGA) which incorporates recommendations made by the Committee on Standards in Public Life (CSPL); this defines the standards of behavior for Members and officers working on behalf of the Combined Authority.

Following consideration by ARAC the revised code was adopted by the WMCA Board on 22nd March 2021. The Director of Law and Governance who is the Monitoring Officer deals with issues of conduct and generally promotes high standards among officer, Members and the Mayor. ARAC perform the role of Standards Committee.

The Authority embeds standards of conduct and behavior through promoting a culture with the values:

Be collaborative

- We work with others to reach common goals
- We are respectful and act with integrity
- We communicate clearly, openly and encourage feedback

Be innovative

- We encourage creativity, originality and curiosity from everyone
- We embrace change, and we are open to new possibilities and exploring new ideas
- We adopt best practices and keep up to date with new developments to enhance our work

Be driven

- We have a positive, proactive and a solution-oriented attitude
- We set ourselves high standards and strive to exceed these
- We take ownership for our performance and outcomes

Be inclusive

- We care about and treat each other with dignity and respect
- We create a positive working environment
- We value diversity and consider other people's viewpoints ensuring no one is excluded
- We encourage and support each other

The business of the Authority will also be conducted in accordance with the Seven Principles of Public Life identified in The Nolan Committee Report (1995), and defined as selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

b) Ensuring openness and comprehensive stakeholder engagement

We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. All formal meetings are held in public and reports are in the public domain unless there are good reasons for confidentiality in individual cases.

We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements. This has been developed further this year by working with the arm's length companies to confirm assurance and governance arrangements.

We assess the effectiveness of relationship frameworks in order to identify any changes required.

Where consultation is required, we adhere to the principles of good consultation of "the Gunning Principles" and a variety of measures are used to seek the views of the public. For example, public consultation will be incorporated into any plans where a change to public transport policy is being considered.

c) Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Authority ensures the vision and implications for governance arrangement are regularly reviewed including the monitoring of its achievement of intended outcomes from social, economic, environmental and organisational health perspectives through the budget, performance framework, and project delivery process.

The Authority is focussed on delivering value for money and success, and in this respect reviewed by independent auditors in line with the NAO's Code of Audit Practice and Auditor's Guidance Note AGN03. The results of the Value for Money audit work and the key messages arising will be reported in an Audit Findings Report and in the Annual Audit Letter.

Each of these benefit categories are assessed in major project business case submissions. The Authority wants to ensure strategically important projects with high benefits for the region are progressed.

The Authority is working to achieve the priorities set out in the Devolution Deals that have been negotiated with Central Government. The Authority's purpose and vision are detailed in the Strategic Economic plan (SEP), Industrial Strategy, and the Annual Plan. Performance against the Devolution Deals will be monitored and assessed throughout 2021/22. A Gateway review challenge session in respect of the first Devolution Deal took place in January 2021 with SLT being joined by MHCLG to discuss the approach the CA had taken with the Investment Programme, consider projects in delivery and identify improved ways of joint working.

To ensure the purpose and vision of the Authority is clear and well communicated, an annual update of the Annual Business Plan and Delivery outlines the Authority's activities and achievements. This was presented to WMCA Board in September 2020.

d) Determining the interventions necessary to optimize the achievement of the intended outcomes

The Authority works closely with the relevant Government Departments, local and national stakeholders and constituent and non-constituent authorities to determine the necessary actions to achieve these priorities.

Senior Leadership Team oversees the corporate decision-making process and reports are considered at an appropriate level of the organisation in accordance with the provisions of the Constitution.

Corporate strategic decisions are primarily taken at meetings of the WMCA Board, although Investment Fund decisions up to the value of £20m are delegated to the Investment Board. Other thematic Boards have roles as set out under the Strategic Assurance Framework (SAF) in terms of overseeing and reviewing project initiation and delivery. This includes reviewing progress of outcomes against delivery plans.

e) Developing the entity's capacity, including the capability of its leadership and the individuals within it

We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. As the Authority develops, we are reviewing our governance arrangements and the Constitution to ensure they remain fit for purpose in a growing organisation. A scheme of delegation is laid out in the Constitution. In July 2020 the WMCA Board approved the revised Single Assurance Framework which has also been signed off by MHCLG.

The collective and individual roles and responsibilities of the Senior Leadership Team, Members and officers is well established and to support our ambition to become an agile, and high performing workforce, our approach to performance has been refreshed in line with our Re-set and Re-build programme. Our new performance management framework will enable us to build on our strengths and focus everything we do. Our behavioural framework will be fundamental to our performance framework and will align to our goals – helping us to focus on what we do and how we do things. This will facilitate how we develop a culture

that supports us all to be diverse, inclusive, innovative and proud to be part of the Combined Authority.

We identify and aim to address the development needs of members and officers in relation to their roles and support with appropriate induction and training. In 2020/21 a considerable portion of the training budget was spent on the leadership of the organisation. Specifically in 2020/21, ARAC members received finance training to allow them to understand financial accounts, financial reporting arrangements and WMCA's Treasury Management Strategy and practices.

Training requirements for 2021/22 will be reviewed following ARAC in June. Overview and Scrutiny Committee Chairs and leading Members have also participated in external training and events.

f) Managing risks and performance through robust internal control and strong public financial management

Risk management continues to be embedded in the culture; accountabilities and responsibilities defined within roles, and with processes determining ways of working, managing and reporting risk. This continues to evolve, and steps are being undertaken to improve the process across the organization with the new Strategic Risk Framework that is being presented to SLT in June 2021. WMCA risk appetite for the 6 recognised risk categories has been reconfirmed by Senior Leadership Team for 2020/21.

The Authority ensures compliance with relevant laws and regulations, internal policies and procedures. We are rigorous and transparent about decision making and the recording of decisions. The Overview and Scrutiny Committee reviews and challenges the work and decisions of the Authority with policy review and development.

ARAC is independent of the executive and scrutiny function; it has an independent, external Chair. They monitor and review risk and governance processes, and results, in order to provide assurance to the WMCA Board on their effectiveness. Appropriate controls are in place for arms-length companies and as good practice external auditors have been appointed for West Midlands Rail Limited, Midland Metro Limited, WM5G Limited and West Midlands Development Capital Ltd.

Internal Audit provides the 'third line of defence' with the first line being policies, procedures and controls, and the second being managers' own checks of the control environment, along with independent programme assurance activities undertaken as part of the Single Assurance Framework. Professional advice and good quality information is provided to ensure those making decisions are provided with relevant information that is fit for purpose.

A new Single Assurance Framework was approved by WMCA Board in July 2020. This enhanced the previous document ensuring a consistent and proportionate approach to initiation, development and approval of projects and programmes with robust processes. This supports good governance with enhanced assurance tools and appraisal of projects, including identification of risks and issues of the project and the investment and how they are managed, reviewed, and escalated. The new assurance framework has been expanded to include assurance requirements for the new and proposed devolution deals and was approved by Ministry of Housing, DfT, DoE, and Communities and Local Government (MHCLG) and is aligned to the National Single Pot Assurance Guidance.

The Single Assurance Framework implementation has been supplemented by the introduction of the reviewed governance arrangements to support Investment Programme decision making in the form of an Investment Panel and Investment Board. There are clear Terms of Reference for these groups and training has been provided to the members of

these groups to support the undertaking of their roles and to understand the risks around these proposals. The introduction of the Assurance Toolkit and Risk & Investment Appraisal process review of project business cases through the Single Assurance Framework systematically seeks confidence and evidence for potential risks.

In 2020 the majority of the Authority's key financial audits received a 'substantial' internal audit outcome.

g) Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Authority has begun implementation of the WMCA Assurance Framework which was approved by MHCLG (previously Department of Communities and Local Government (DCLG)) in July 2020.

We continue to maintain close links with all relevant Government Departments and have regular conversations regarding issues including funding, delivery and devolution objectives.

The Authority has a monitoring officer who sits on both the Senior Leadership Team and attends the WMCA Board meetings to ensure all of our activity is legal. Our high level of Governance standards includes the publishing of agendas, minutes and reports in the public domain and only limited use of confidential reporting. The 2021/22 internal audit plan was approved at ARAC's March 2021 meeting.

A checklist has been implemented for the arm's length companies of the Authority to ascertain confidence in governance and assurance arrangements. This action came out of the Audit, Risk and Assurance Committee, to develop a checklist of questions that would provide a consistent mechanism of assurance to the Committee that could provide overall assurance on all the Authority's activities. All relationships are reviewed at least once per year.

Arrangements are in place for "whistleblowing" and "counter-fraud" for receiving and investigating complaints from both officers and members of the public. Any issues raised are considered by the Monitoring Officer in conjunction with Internal Audit and reported to the ARAC Chair.

The Opinion of the Director of Law and Governance 2020/21

CIPFA (The Chartered Institute of Public Finance & Accountancy) defines the role of Governance and the Chief Financial Officer as follows:

- Governance is defined as "The arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an economical, effective, efficient and ethical manner" and;
- The Chief Financial Officer is "The organisation's most senior executive role charged with leading and directing financial strategy and operations."

These statements have been confirmed and agreed by the Director of Law and Governance and the Finance Director respectively.

The Director of Law and Governance is satisfied that the system of internal assurance is robust and providing visibility of risk and reasonable assurance to the Senior Leadership Team.

The opinion is based on the results of an on-going programme of activities and review, the outcomes of which were considered by the Audit, Risk and Assurance Committee. Activities include:

- a) External audit
- b) Internal audit
- c) The Risk Management Process, particularly the Strategic Risk Register
- d) Performance information
- e) Assurance

During 2020/21, the audit of Budgetary Control and three other 'key financial systems' audits were given 'substantial' rating by internal audit and 100% 'Green' in terms of its recommendations, whilst a 'Satisfactory' level was achieved for Treasury Management and Accounts Payable. WMCA's response to Covid 19 Procurement and Supplier relief, and Employee management arrangements were both rated substantial with 100% green recommendations and 1 amber recommendation was identified for the Environment Management systems. No audit recommendations were flagged as 'red' where imperative action is required. This demonstrates the continued effectiveness of systems and processes supporting audit, risk and governance.

As agreed by WMCA Board in July 2020, the first projects and programmes to transition to the new Single Assurance Framework would be the Investment Programme. This would allow a phased and managed transition of projects and programmes onto the new assurance arrangements. There are broadly three areas within a project lifecycle that are supported by the new assurance Framework, - Initiation, Development and Approvals. The new Approvals stage went live in September 2020 with the Investment Panel; any proposal and/or Business Case that requires Investment Board and WMCA Board approval will first be considered at the Investment Panel. From November 2020 to March 2021, 5 Business Case relating to major projects in the Investment Programme have been appraised in accordance with the new assurance arrangements. In addition, 5 Change Requests have also been appraised. A commitment has been made by the Senior Leadership Team that the Single Assurance Framework disciplines will be rolled out across all portfolio areas in the near future.

Progress of the 2020/21 Annual Business Plan was monitored on a monthly basis by internal management teams with key risks impacting on its delivery, being escalated to the directorate risk registers. In addition, delivery against performance of the High Level Deliverables within the Annual Plan was reported monthly to SLT and quarterly to WMCA Board. In 2021/22 the annual planning process is being revised with closer links between the strategic objectives and business plans.

Regular risk management review meetings are now in place across all the Authority's activities including all directorates to enable full visibility of key risks having the potential to impact on the organisation. Risk Management and Performance Management is intended to be brought together to provide a strong evidence base to substantiate the risk assumptions.

Operational Risk Registers are in place within directorates which feed into the WMCA Strategic Risk Register. There are regular meetings in place with both the management team of each business area and the Strategy Director to monitor the status of risks and to ascertain the level of risk exposure in each of these areas to determine the assurance conclusions. Additionally, the Strategic Risk Register is reviewed by Senior Leadership Team on a quarterly basis.

The Authority has set itself a demanding programme of work and is ambitious for itself and the benefits that it hopes to bring to the region. It has been successful in negotiations for a second Devolution Deal and has recruited an able team of experienced professionals to form the leadership team. There is significant pressure on resources however, particularly in matching staff resources to the tasks in hand and this is being carefully monitored by the Authority and a plan in place to mitigate these pressures accordingly.

The last year has seen an unprecedented challenge in the shape of the Covid19 pandemic. This has affected every area of life in the UK and clearly these issues have affected the Combined Authority as with others. Through agile working and the implementation of our corporate resilience arrangements we have been able to continue to manage workloads and delivery. We have worked with public transport providers to ensure that appropriate measures are in place to safeguard the public. We have taken a key role in regional response and recovery arrangements and are leading work to ensure that the economic recovery of the west Midlands is put on a secure footing. Through

the use of remote meeting technology, we were able to ensure the continuation of political meetings and decision-making and controls have remained robust as the audits referred to above show.

Conclusion

In undertaking the review of internal control and governance framework, the Authority is satisfied the systems of internal control that facilitate the effective exercise of the organisation's functions are in place and that all issues raised through the Audit, Risk and Assurance Committee have been appropriately addressed and actions have been assigned an appropriate owner.

On behalf of the West Midlands Combined Authority

Andy Street

Mayor and Chair of the West Midlands Combined Authority

Date:

Deborah Cadman

Chief Executive

Date: