

## WMCA Board

<b>Date</b>	17 March 2023
<b>Report title</b>	Financial Monitoring Report 2022/23
<b>Portfolio Lead</b>	Finance - Councillor Bob Sleigh
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<b>Report has been considered by</b>	Executive Board – 9 March 2023 WM FDs – 9 March 2023

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

#### The WMCA Board is recommended to:

- (1) Note the financial position as at 31 January 2023, as detailed in Sections 2 and 3.
- (2) Note the latest full year forecast for 2022/23 as detailed in Section 4.
- (3) Note the new grant awards to the WMCA as outlined in Section 5, and the arrangements for these grants.
- (4) With respect to the £15m Social Housing Fund, delegate authority to the WMCA Executive Director of Finance and Business Hub (S151 Officer), the ability to make payments to Local Authorities subject to WMCA receiving the grant conditions, those conditions being acceptable and the distribution of payments between Local Authorities being in line with the necessary regional agreements.
- (5) Delegate authority to the WMCA Executive Director of Finance and Business Hub (S151 Officer) to accept any funds awarded during the pre-election period and up to the June Board meeting, subject to satisfactory terms and conditions and all funds going through the Single Assurance Framework.

- (6) Note the risk management arrangements in place at WMCA and the suggested revisions towards reporting exposure to risk as detailed in Section 6 of this report.
- (7) Note the specific details around the under-write provided by the seven Constituent Local Authorities as detailed in Section 6 of this report.
- (8) Confirm the annual allocations endorsed by WMCA Board on 18 March 2022 for 2023/24 in respect of Highways Maintenance and Local Network Improvement Plan, within the City Region Sustainable Transport Settlement, as detailed at Section 7.
- (9) Approve the CRSTS revenue allocation approach as detailed in Section 8.

## **1. Purpose**

This report provides an update on the Combined Authority's finances as at 31 January 2023.

## **2. 2022/23 Year to Date Revenue Position**

- 2.1 Appendix 1 shows the overall consolidated revenue position for the West Midlands Combined Authority and Appendices 2 to 4 present the detailed summaries for Transport, the WMCA Delivery budget and the Mayoral office respectively.
- 2.2 The overall position year to date at the end of January 2023 is a favourable variance to budget of £2.6m.
- 2.3 Within Transport there is a surplus at the end of January of £6.4m which represents a favourable variance from budget of £2.7m. The most notable variances relate to Concessions where savings to date due to lower patronage and fare levels have been transferred to a reserve to protect against future risks in relation to the transport network which were outlined in the 2023/24 budget report. Within the Metro there is an increased MML Subsidy requirement which is partly offset by Local Transport Fund (LTF) grant received in year. Savings to date also arise from vacancies across a number of budgets and on reduced spend on supplies budgets. Of the £7.9m budgeted reserves to support the overall Transport budget, £6.6m has been utilised to date. The position to date is expected to be partially offset by the full year due to the increase in the Metro operational costs requirement and provisions made to reflect future capital and revenue funding pressures.
- 2.4 Within the Portfolio budgets there is an adverse variance of £1.1m at the end of January. Savings against staffing and external advice budgets have been offset by a lower than budgeted draw down of reserves. Of the £6.1m budgeted reserves to support the overall Portfolio budgets, £2.0m has been utilised to date.
- 2.5 The Mayoral Office position as at the end of January 2023 was in line with budget.

### **3. 2022/23 Capital Programme Position**

- 3.1 Appendix 5 sets out the position on the Capital Programme as at the end of January 2023. Actual costs totalled £281.7m, resulting in a favourable variance of £186m against budget.
- 3.2 The year to date expenditure to budget variance is primarily contained within Transport (£111.3m) and Housing (£39.7m).
- 3.3 The Transport Programme has been categorised into six sub programmes. The largest of these is the Investment Programme with a full year budget of £196.5m, including all the Rail, Sprint & Metro extension schemes.
- 3.4 At the end of January, actual costs for the Investment Programme are £38.6m below the budget of £154.7m. The main variances are within the Metro Programme totalling £24m and the Rail Programme totalling £13.7m.
- 3.5 Within Housing, the variance primarily relates to Brownfield Housing Fund ('BHF') and BLPDF Pipeline projects where projects have not yet been able to be taken to investment Board for approval and/or move from approval to signed funding agreements due to delays resulting from the impact of the economic climate, national policy changes (e.g., on planning), land negotiations, and applicants being able to secure the relevant planning permissions and resolve construction and energy cost issues. These include Telford Station Quarter (£2.4m), Shard End (£2.2m) and Icknield Port Loop (£3.9m). Furthermore, there has been a review of costs on Phoenix Park (£2.0m) due to cost inflation and this is now due to go back for Investment Board approval in 2023/24. In addition, works within the Land and Property Investment Fund (LPIF – managed outside of the Housing and Land Portfolio) related to the Phoenix 10 project (£3m) and the uncommitted funds (£3.4m) have now been deferred to future years.
- 3.6 Further detail against the year to date and full in year spend against the Authority Capital Programme is available in Appendix 5.

### **4.0 Revenue and Capital Full Year Forecast Update**

- 4.1 A refresh of the full year forecast was under-taken during January and the position now reflects the expected outturn at year end. The forecast is an updated view of cost of delivering activities in 2022/23 and the latest position on funding.

The revenue position for the full year forecasts a surplus of £1.0m, a minor improvement on the previous forecast by £0.3m. The main full year movements are mainly within Transport, arising from increased advertising income and contractual savings relating to accessible transport partly offset by an increase in the MML operating costs to reflect ongoing cost pressures and revenue lost during the service shutdown earlier in the financial year and a capital finance contribution. In addition the forecast also reflects the need for a provision to support WMCA hosting of transport events such as the 2027 Intelligent Transport Systems World Congress bid reported to September 2022 WMCA Board

- 4.2 The position reflects the latest position bus funding (Local Transport Funding, Network Stabilisation Fund and Network Planning Fund) and the corresponding expenditure to operators. Government notified transport authorities that the Local Transport Fund would be continued for January to March 2023, providing some targeted funding support for operators and Local Transport Authorities. At the time of finalising this report WMCA is awaiting further details of the amount from Department for Transport (DfT) so that payments can be made to operators. The WMCA will continue to pay concessions at pre pandemic budget levels until March 2023 to support network stability to this date. In recognition of the ongoing risks beyond this date, the year to date savings have been moved to the transport risks reserve.
- 4.3 Government has confirmed on 17 March 2023 that revenue support for buses and the Bus Fare Cap Grant scheme which capped bus fares at £2 would be extended for a further 3 months to 30 June 2023. WMCA is awaiting further details on quantum of funding that will be received but DfT have indicated that it will be at a similar level to 2022/23 funding.
- 4.4 The capital forecast shows a favourable movement of £215.4m from the budget largely in relation to CRSTS (£30.0m), Grants to Local Authorities (Transport £24.7m and Investment Programme £32.8m) and the Housing Programme (£45m). The CRSTS budget reflects the most up to date information on delivery. Further details on progress on this programme is included in Section 8 of this report. Some Local Authority schemes have been deferred until 2023/24 due to capacity issues, whilst others have been revisited in light of the post pandemic habits. The reasons for the Housing programme variances are noted in 3.5 and also affect the forecast position. These are all conditions that contribute to a more challenging environment for bringing housing and regeneration sites to market, planned starts on site and drawdown of capital funding. This is reflected in the latest capital spend figures for schemes seeking WMCA housing and regeneration grant investment. This position will be kept under close review throughout 2023 and in developing the final 2023/24 capital budget.
- 4.5 The WMCA will continue to work closely with delivery partners to ensure that any potential delivery slippage risk is managed appropriately. There has been ongoing engagement with grant providers in respect of the slippage in the capital programme to minimise risk of any grant clawbacks.

## **5.0 New Funding**

- 5.1 The WMCA continues to secure external funding to deliver on its priorities and make a positive impact for the region. Since the last report, new grant funding, totalling £175m has been secured. Details of these grants are summarised in the table below.

Grant name	Value	Grant period		Purpose
	£m	From	To	
Social Housing Fund	14.900	Feb-23	Mar-23	To undertake critical improvements and repairs to social housing to bring them up to a decent standard.
Thrive into Work	7.900	Apr-23	Mar-25	Continue programme of work in offering one-to-one job finding support to people with health challenges
Adept Live Labs 2	4.000	Apr-23	Mar-26	Providing a centralised hub for research and innovation for the decarbonisation of local roads materials- Highways CO2laboration Centre
Active Travel Capability Fund (CAF)	3.456	Jan-23	Jan-24	To support the better design, planning and development of cycling, wheeling and walking schemes in region
CCAV - MACAM	1.485	Mar-23	Mar-25	The project will take a stepped approach to remove the safety driver in an electric vehicle fleet of 13, around 2 proposed locations within Solihull and Coventry
DEFRA Air Quality Grant	0.919	Apr-23	Mar-25	Particulate matter monitoring and engagement programme to increase awareness and encourage behaviour change towards domestic burning across the region
Cybersecurity Grant	0.175	Dec-22	n/a	To improve on online security and resilience
CCAV - EBNS Feasibility Study	0.055	Apr-23	Nov-23	TfWM will be the lead partner and will be responsible for a total of £55k (around 28%) of the overall budget to deliver a feasibility project looking at how Connected and Autonomous Mobility technologies could be used to connect deprived areas of East Birmingham and North Solihull using cheaper driverless solutions than the previously economically unviable light rail solution.
Adult Education Budget	132.719	Aug-23	Jul-24	Devolved grant to help support the delivery of education and training to people aged 19 and over. AEB funding aims to engage adults in learning and provide them with learning opportunities to help them gain new skills and knowledge to gain employment, progress in work or to further their education.
Free courses for Jobs	9.376	Aug-23	Jul-24	Formerly known as the Level 3 adult offer. Funding is to be used to deliver level 3 qualifications available through Free Courses for Jobs and for eligible adult learners aged 19-23
<b>Total</b>	<b>174.985</b>			

5.2 Adult Education Budget funding relates to the academic year 2023/24. It should be noted that the total funding for financial year 2023/24 (including Free Courses for Jobs) has increased by £0.8m compared to budgeted assumptions reported to Board in February 2023.

5.3 In addition to the above, there are a number of bids or grant announcements where decisions are expected imminently. It is proposed that authority is delegated to the Executive Director of Finance and Business Hub to accept any grants notified during the pre-election period and up to the June WMCA Board meeting, subject to satisfactory terms and the Single Assurance framework being followed.

5.4 A report on any further successful awards will be reported to the Board in June.

## 6.0 Financial Risks

6.1 WMCA was established by statutory instrument in June 2016. The first full year revenue budget (2017/18) totalled £161m, and capital spend in the year totalled £71m. The WMCA 2023/24 budget report approved in February 2023 outlined a revenue budget of £345m and an in year capital budget of £805m.

- 6.2 The analysis above shows that WMCA has grown significantly in the seven years since the parliamentary Order was passed. The majority of that growth is as a result of WMCA being successful in drawing in government funding, but the degree of flexibility and autonomy WMCA has over its resources remains severely limited.
- 6.3 Looking forward, WMCA are in the advanced stages of negotiating a deeper devolution deal with Government, which it is hoped will draw even further powers and resources into the region, whilst simultaneously allowing the Authority more autonomy over how it is able to deploy the resources it has available.
- 6.4 The scale that WMCA operates at does introduce material risk/s, which need to be carefully assessed and managed. These risks vary, from risks inherent in commercial arrangements (e.g. the Commercial Investment Fund Loan portfolio), to risks around grants with claw-back conditions and operational / delivery risk (such as the Capital Programme risks subject to a separate report at this meeting).
- 6.5 WMCA continually looks to manage these risks, and when risks do crystalise, every possible attempt is made to ensure that the impact of those risks does not impact Local Authorities, who are also operating within a constricted financial environment. Ultimately, however, if the Combined Authority were to fail, it is underwritten (or guaranteed) in statute by the seven Constituent Local Authority Members.
- 6.6 The West Midlands Combined Authority Order 2016 states that the constituent councils must meet the costs of the Combined Authority reasonably attributable to the exercise of the functions. The decision on how those costs may be attributed is a decision for the constituent members, not the WMCA Board. Unless the authorities agree otherwise the basis of funding is in proportion to the total resident population of the area of each council. It is understood at the formation that Constituent Authorities agreed an equal split of risk however this has not been formally documented annually. The agreement to the basis of funding should be renewed each year and their agreement should be recited in the budget report to record the fact of their agreement. Going forwards, it is recommended that WMCA obtain written agreement to the apportionment arrangements at the point the budget is set.
- 6.7 The risk profile of the Combined Authority (and subsequently the ability and appetite to introduce new risks) is continually evolving. This report outlines that there are a number of ways in which these matters are brought to the attention of key stakeholders as new risks emerge and old risks fall away. Notwithstanding this, it is recommended that the Financial Monitoring Report (which is presented to each WMCA Board) consolidates details about the headline financial risks (incorporating commercial, operational and strategic) WMCA are holding to increase transparency and oversight by the Board.
- 6.8 Further details on the Commercial project financial risks can be found in Appendix 15 of this report. It should be noted that a Strategic Risk Register (SRR) is maintained and updated and is reported to the Audit, Risk and Assurance Committee on a regular basis, the latest being on 24 January 2023 and is publicly available via the WMCA web site. Commercial risks are shared with West Midlands Finance Directors monthly and changes between months are discussed. This enables the West Midlands Finance Directors to gauge the overall risk profile of the Combined Authority and can be used when considering how appropriate it may be to import additional risk into the Authority when considering potential, new initiatives. Operational risks are usually shared through the

Financial Monitoring Report with commentary about how these are being managed in year. Specifically, in recent months, details concerning the integrity of the public transport system and value / duration of Government support for these services (and the potential maximum cost if WMCA were to fully offset any likely network deterioration) has featured prominently within such reports.

## 7.0 City Region Sustainable Transport Settlement – Local Network Improvement Plan (‘LNIP’) and Highways Maintenance

7.1 On 18 March 2022, WMCA Board approved (subject to conditions now satisfied) the annual allocations for the Local Network Improvement Plans and Highways Maintenance stated below:

£	Annual LNIP Funding	Highways Maintenance
WMCA	5,465,000	-
Birmingham	6,253,500	-
Coventry	2,034,000	4,086,400
Dudley	1,760,400	4,486,100
Sandwell	1,797,900	4,741,300
Solihull	1,184,100	3,872,100
Walsall	1,563,100	3,568,700
Wolverhampton	1,442,000	3,325,400
<b>Annual Total</b>	<b>21,500,000</b>	<b>24,080,000</b>
<b>Five-Year Programme Total</b>	<b>107,500,000</b>	<b>120,400,000</b>

7.2 The allocations were awarded for the five-year CRSTS period and are subject to annual confirmation by WMCA Board.

7.3 The WMCA Board is recommended to confirm the allocation for 2023/24 as stated above.

7.4 On 18 March 2022, WMCA Board also endorsed the recommendation for the Local Network Improvement Plans and Highways Maintenance to not be subject to the WMCA Single Assurance Framework.

7.5 It should be noted that a CRSTS annual report is expected to be presented to WMCA Board in June 2023 documenting progress against the programme.

## 8.0 City Region Sustainable Transport Settlement – Revenue Funding

8.1 With respect to the £25.5m of revenue funding which supplements the £1.050bn CRSTS allocation, £8.9m has already been distributed in line with the apportionment agreed at September 2021 WMCA Board. Then, of the remaining £16.6m:

- £4.3m will be retained by WMCA to ensure adequate execution of the Accountable Body functions to March 2027. This will be subject to satisfactory oversight by the West Midlands Finance Director (WMFD) group to ensure the costs charged remain incremental. Options to charge these costs to the capital fund will be kept open and

reviewed, which would enable the protection of revenue funding and opportunities for increased distribution in the future.

- £8.4m will be distributed using the historic formula for Transport funding, being 25% TfWM and the remaining £6.3m to Local Authorities based on population.
- £3.9m will be retained pending a review of options for Joint Initiative work.

8.2 The approach outlined above was the subject of a discussion with the WMFD group and Strategic Transport Officer Group on 2 March 2023 where agreement was reached subject to endorsement by WMCA Board. Regular updates including opportunities for how this funding may be used to best effect for all stakeholders will be undertaken throughout the life of the programme and relevant matters reported back to Board.

## **9.0 WMCA Investment Programme**

9.1 The financial results for the West Midlands Regional Investment Programme run one month behind the regular management accounts, due to the requirement to consolidate outputs across the metropolitan area.

9.2 The December expenditure is shown at Appendix 11, which reports the gross delivery totals for programmes delivered by both WMCA and other entities (being primarily constituent member local authorities).

9.3 Appendix 12 summarises grant funding commitments approved by WMCA for projects within the WMCA Investment Programme, which total £853.8m as at 31st January 2023 (no overall change from £853.8m as at 30th November 2022).

9.4 WMCA Investment Programme funding drawn / incurred by projects against these funding commitments as at 31st December 2022 totals £502.8m.

9.5 WMCA Board is advised to note that WMCA are in contact with the Department for Levelling Up, Housing and Communities ('DLUHC') in respect of an interim gateway review which is expected to complete in February 2024.

## **10.0 Administered Funds**

10.1 Administered Funds which were 'live' as at 1 April 2022, totalled £27.4m as of 31 January 2023. This sum excludes funds fully utilised and concluded by 31 March 2022. A breakdown of this amount is included within Appendix 13.

10.2 These funds do not form part of the Authority's own revenue and capital budgets but are effectively funds received by WMCA and passported to partner authorities for delivery.

10.3 Elements of the overarching grants listed in Appendix 13 which are not passported are excluded from this appendix.

## **11.0 Balance Sheet**

11.1 Appendix 14 presents the West Midlands Combined Authority Balance Sheet which shows a healthy financial position as at 31 January 2023.



- 11.2 The increase in property, plant and equipment reflects TfWM capital spend and work-in-progress funded mainly by grants in advance, resulting in an increase of £6.0m.
- 11.3 The increase in short-term deposits is largely due to grant receipts in respect of Network Planning and Stabilisation Fund, City Regional Sustainable Transport Settlement (CRSTS), Bus Service Improvement Fund and Shared Prosperity Fund and from Birmingham City Council as funding for A34/A45 SPRINT and University Station, offset by payments in respect of PWLB principal loan repayment, Collective Investment Funds loans drawdown, Adult Education Budget, Investment Programme and Metro extension schemes.
- 11.4 Payments for the Investment Programme and Adult Education Budget contributed to the net £14.5m reduction in earmarked reserves.
- 11.5 The £20.2m decrease in short-term creditors/accruals is due to repayment of short term loans. The grants received from Birmingham City Council and for the Network Planning Fund mentioned in paragraph 12.3 above have contributed to the net decrease in short term debtors, whilst other grants receipt has led to increase in grants receipt in advance.

## **12.0 Financial Implications**

- 12.1 The financial implications are set out in the report.

## **13.0 Legal Implications**

- 13.1 In respect of the funding and passporting of funds there will be conditions that WMCA will need to adhere to. Legal support will be required for any legal documentation entered into in respect of the above.

## **14.0 Other Implications**

- 14.1 There are no Equalities, Inclusive Growth, Geographical or Other implications arising from this report.

## **15.0 Appendices**

- Appendix 1 – WMCA Consolidated Summary – January 2023
- Appendix 2 – WMCA Transport Revenue Summary – January 2023
- Appendix 3 – WMCA Delivery Budget Summary – January 2023
- Appendix 4 – WMCA Mayor Revenue Summary – January 2023
- Appendix 5 – WMCA Capital Programme – January 2023
- Appendix 6 – WMCA 2022/23 Transport Capital Programme
- Appendix 7 – WMCA 2022/23 Housing and Land Capital Programme
- Appendix 8 – WMCA 2022/23 Investment Programme to Local Authorities Programme

- Appendix 9 – WMCA 2022/23 City Regional Sustainable Transport Settlement Programme
- Appendix 10 – CRSTS Commitments – January 2023
- Appendix 11 – Total Regional Investment Programme Expenditure – December 2022
- Appendix 12 – WMCA Investment Programme Commitments – January 2023
- Appendix 13 – WMCA Administered Funds – January 2023
- Appendix 14 – WMCA Balance Sheet – January 2023
- Appendix 15 – Commercial Project Financial Risk Overview