WEST MIDLANDS
COMBINED AUTHORITY

Statement of Accounts

For the year ended 31 March 2017

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Contents

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The West Midlands Combined Authority present their report and financial report for the twelve months ended 31 March 2017.

1. Activities

The financial year ended 31 March 2017 has been a very significant year for the West Midlands. The local Democracy, Economic Development and Construction Act 2009 permits combined authorities to be established and to undertake functions related to economic development, regeneration and transport. The Cities and Local Government Devolution Act 2016 gives combined authorities powers to enable growth and public service reform in their areas and the permission to have a directly-elected Mayor.

As a result, in June 2016 the West Midlands Combined Authority (WMCA) was established and all activities and functions relating to the existing West Midlands Integrated Transport Authority (ITA) and West Midlands Passenger Transport Executive (PTE) were transitioned to the new body.

The Combined Authority launched its ambition and strategic economic plan and the seven Metropolitan leaders signed our first Devolution deal with the government and we are now deep in discussions to develop a radical, long-term and strategic approach, negotiating for powers and functions that can be locally devolved and energetically lobbying for further future deals including significant fiscal devolution.

Leadership of WMCA comes from the seven Constituent local authority leaders and Chief Executives, plus the Chairs and Directors of the Local Enterprise Partnerships (LEPs). Non-Constituent authorities also play a crucial role at board level, helping to inform policy and drive forward the Combined Authority agenda. Elected members and officers lead on key portfolio areas, working in partnership with LEP colleagues. The Councillors formed the Mayor’s cabinet following the Mayoral election in May 2017.

2. Review of the Year

The West Midlands Combined Authority (WMCA) and within that, Transport for West Midlands, was established in June 2016. It saw the organisation previously responsible for the delivery of transport superseded by a body with far more wide-ranging powers across all sectors and the remit to transform the region socially and economically.

This will be achieved principally through the Strategic Economic Plan, the driver for economic growth across the West Midlands. It will help close the productivity gap by 2020 through a series of high-profile ‘Power Projects’ including significant advances to the region’s infrastructure, environment and economy.

The WMCA consists of the seven existing Metropolitan councils, as well as six adjoining local authorities and four Local Enterprise Partnerships (LEPs), which together make up the largest combined authority in the UK.

Devolution is key to the future of the WMCA, especially with the powers and financial responsibilities due to be conferred on the new Metropolitan Mayor in May 2017. Strategic areas the WMCA now covers include:

- Skills and Productivity
- Economic Growth
- Mental Health
- Housing and Land
- Finance and Investment
- Public Service Reform

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As part of the Devolution Deal, where powers are transferred from Westminster to the politicians and decision-makers who know this region best, in August 2016 the WMCA received an initial £36.5million, the first of payments totalling £1.1 billion over the next 30 years.

This, and subsequent funding packages, will power the Midlands Engine, the mechanism that will help unlock growth, jobs and prosperity and ultimately provide a better quality of life for the four million people of the West Midlands.

Strategic Economic Plan
The WMCA Strategic Economic Plan (SEP) was launched in June 2016 and is the blueprint for the region making its mark regionally, nationally and internationally.

The SEP highlights how the area's economy will be transformed over the next 20 years, creating 500,000 new jobs, increasing life expectancy, making 1.9 million new homes available and driving up productivity and skills to transform the region's prosperity and well-being.

The SEP was developed and agreed by a wide partnership of people, organisations and businesses and forms a major strand of the devolution agenda which will help increase productivity, reform public services, widen access to education and training and improve housing stock.

The aim of the SEP is for the West Midlands to become the centre of the largest concentration of advanced manufacturing in Europe, while leading the world in low carbon technology and life sciences.

High Speed 2
The Midlands HS2 Growth Strategy was adopted by the WMCA, with support from central Government and HS2 Ltd. It is set to be the catalyst to deliver 104,000 jobs, 2,000 apprenticeships, an increase in skills, additional support for local businesses, and improved accessibility with over two million people connected to the two HS2 station sites in central Birmingham and Solihull.

The key proposals of the Strategy will be funded by the Devolution Deal and unlock the unprecedented opportunities that the construction of the largest infrastructure project in Europe will bring to the region.

Elected Mayor
Having negotiated and accepted the Devolution Agreement with Government, WMCA approved the creation of a mayoral combined authority.

Six candidates put themselves forward for the election on May 4th, 2017, representing the Conservative, Labour, Liberal Democrat, Green, UKIP and Communist parties. The new Mayor will assume responsibilities at the WMCA for three years. There will be a new election in 2020 when the term of office is increased to four years.

Commissions
There are three commissions within the WMCA: Mental Health, Land and Productivity and Skills.

Mental Health
When the WMCA was formed, poor mental health and well-being was highlighted as a significant driver of demand for public services and has a negative impact on the economy.

The WMCA Mental Health Commission was established to address these issues, with Norman Lamb MP, the former Minister of State for Care and Support, as chair.

A panel of eminent experts in the mental health field examined the specific contribution that public sector reform and devolved responsibility could make to the mental health and well-being of the

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population of the WMCA area, focusing on the scale of poor mental health and well-being and its cost and impact on public sector services, the economy and communities.

In January 2016, the Commission launched 'Thrive West Midlands' – its action plan for the region. Thrive West Midlands set out a series of ambitious actions and pledges the Commission produced with the aim of changing lives.

The plan is a priority project for WMCA and is the result of considerable work not only by the commission, but also a Citizens Jury of people with personal experience of mental ill health.

The plan highlighted several priority actions, including:

- Early intervention
- Decent housing
- Helping people into work and off benefits
- Keeping people out of the criminal justice system

WMCA has identified improvements to mental health treatment where it can deliver significant public sector reform and an implementation director from West Midlands Police has been seconded to manage delivery of the action plan going forward.

Land Commission

An independent panel of prominent UK property and infrastructure experts was launched in September 2016 to help the WMCA utilise hundreds of hectares of undeveloped land.

The West Midlands Land Commission was set up to provide independent advice and recommendations to the authority as it seeks to secure an improved and balanced supply of land to meet economic growth, new jobs and housing targets.

Identifying land is crucial for the WMCA to meet future housing demand and deliver its SEP. WMCA is seeking to develop an extra 1,600 hectares of former industrial sites (brownfield land) for commercial use over the coming decade.

Allied to this, in February 2017, a blueprint to accelerate the building of more than 5,000 new homes in Birmingham and the Black Country was launched by WMCA, developed in conjunction with Birmingham City Council and Sandwell Metropolitan Borough Council.

The Greater Icknield and Smethwick Housing Growth Prospectus will drive a £400 million development of 5,160 new homes on five brownfield sites in the adjoining areas of Greater Icknield, in Birmingham, and Smethwick, in Sandwell.

The scheme has already attracted investment and commitments from public and private sector partners, including a further £400m in infrastructure improvements. The £353 million Midland Metropolitan Hospital is at the heart of Grove Lane scheme in Smethwick and will see approximately 900 new houses and apartments being built, while the Icknield Port Loop scheme will provide 1,800 homes.

In March 2016, WMCA awarded £53 million to a programme to help landowners and developers reclaim former industrial land in the Black Country. The funding formed part of the first wave of works in a 364 hectare brownfield remediation programme worth £1.4 billion which will create more than 12,000 jobs and 13,500 new homes.

The investment to the Black Country LEP will increase by a further £97 million once the initial development works are successfully completed, bringing the total investment to £150 million.

Productivity and Skills

In April 2017, an independent commission to harness the expertise of prominent business people, technical specialists and academics was launched in order to assist the WMCA in its aim to increase the region's productivity and skills levels.

Chaired by Dr Andy Palmer, President and Chief Executive of Aston Martin Lagonda, the Productivity and Skills Commission provides impartial support and advice to the Authority as it seeks to reduce unemployment, improve workforce skills and secure better productivity.

A 'Call for Evidence' was issued so that the region's business, education and public sectors could contribute, sharing their views and showcase their world-leading expertise. The Commission's overarching goal is to grow the West Midlands' economy beyond current projections and address the skills and productivity gap.

A WMCA Productivity Leadership Group has brought together business leaders from the region's three LEPs to ensure plans to drive productivity are designed by and for local businesses. The group is being advised by experts from across the West Midlands and central government, including senior figures in the productivity and skills system and leading academics from the region's universities.

The Commission's findings will form the basis for a clear vision for productivity and skills in the West Midlands and an integrated plan, linked to the Government's emerging Industrial Strategy.

It will also build on the evidence base developed for the WMCA's Strategic Economic Plan - Making Our Mark - which sets out a series of ambitious goals to transform the regional economy with 500,000 new jobs, 20,000 additional businesses and at least 156,000 more people with level 4 qualifications or above.

Combined Investment Fund

The Combined Investment Fund (CIF) is a £70 million commercial development resource set up by the WMCA in 2016 to stimulate jobs, opportunity and growth. It is aimed at securing an additional £1 billion in private sector investment over the next decade. Managed by Finance Birmingham, it provides short-term loans to private sector developers.

In December 2016, WMCA invested in its first project since its creation when it contributed £7 million to a Staffordshire development which will create an estimated 425 jobs. Two industrial units costing £21.6 million and covering 14 acres will be built at Kingswood Lakeside, near Cannock, the site of a former open-cast colliery.

The same month also saw WMCA approve funding of almost £100 million for a city centre development in Coventry, its largest amount of devolution investment so far.

Plans for the City Centre South project include a major retail, residential and leisure scheme, new homes and a cinema. The development is due to completed in 2022.

In another investment, the CIF is contributing £2.9 million of loan funding to the £5.5 million regeneration of the 2.5 acre former Tuckers Fastenings factory site in Walsall Road, Perry Barr, Birmingham.

The funding will assist with the speculative development of the 46,000 sq ft industrial unit on the brownfield site. Construction is expected to be completed later this year, with the creation of 75 new jobs.

The seven West Midlands Metropolitan Councils of the WMCA also became one of six pilot areas in the UK to introduce new business rate procedures which will see them retain all business rates generated locally from April 2017.

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Under the new scheme, the councils will no longer receive any Revenue Support Grant from Government, although they will keep all business rates generated, instead of only half at the moment. By benefitting from growth in business rates, some of this funding will be put into the CIF.

Dudley Enterprise Zone
As part of the Midlands Engine initiative, a multi-million pound business and innovation Enterprise Zone in Brierley Hill will be developed and bring thousands of new jobs to the region.

The ‘DY5 - Dudley’s Business and Innovation Enterprise Zone’ will be operated by Dudley Council in partnership with the Black Country LEP and WMCA and will aim to become the high-tech office hub of the Black Country’s industry, connecting advanced manufacturing to industrial sites via a new Metro tram link to Birmingham.

It will look at how the manufacturing and technology in the region can help deliver new business, as well as broaden the region’s digital and professional base into existing manufacturing technology.

The zone was created because of the significant amount of vacant office space in the location - 18,000 m2 of low-cost, high-quality accommodation with incentives including business rate relief of up to £55,000 for five years.

It will also help to rejuvenate the Waterfront office complex at Merry Hill and create additional office, technology and industrial space in the surrounding areas of Brierley Hill, Harts Hill and Pensnett and is expected to deliver up to 7,000 new jobs and provide Gross Value Added uplift to the economy of £589 million each year.

West Midlands Growth Company
WMCA is on the verge of establishing a growth company to promote the region around the world. The new entity will help create new jobs, expand existing businesses and promote the region’s considerable business and tourism assets to secure investments from around the world. It will also support delivery of the WMCA’s SEP.

The growth company is being created in association with LEPs, local authorities, growth hubs, universities and the private sector across the West Midlands.

Since July 2016, Marketing Birmingham and WMCA partners have worked together to present plans for a growth company which would be wholly owned by the WMCA and its constituent members.

The initial focus will be across the WMCA three-LEP geography of Greater Birmingham and Solihull, Coventry and Warwickshire and the Black Country. Proposals for the formation of the growth company will be finalised in spring 2017.

National Infrastructure Commission
In January 2016, the region became one of the first areas in the UK to be visited by the National Infrastructure Commission (NIC) when it held a conference at the headquarters of the WMCA in Birmingham.

At the conference, WMCA leaders highlighted the importance of HS2 and an expanded Birmingham Airport as part of the Midlands’ infrastructure priorities as the NIC assesses the nation’s infrastructure needs. The NIC will produce a National Infrastructure Assessment in 2018, the UK’s first comprehensive assessment of the short, medium and long-term infrastructure needs and policies of the country’s regions.

Transport for West Midlands
Integrated transport is crucial to addressing congestion and creating a dynamic, prosperous and connected region. Transport for West Midlands (TfWM) is the transport arm of the WMCA, tasked with

investing to improve the regional transport structure and developing an integrated public transport system that's safe and secure.

2016 saw the extension of the Midland Metro in Birmingham City Centre, the opening of the Grand Central retail centre - part of the iconic New Street Station redevelopment - and the construction of a new rail station in Bromsgrove.

The innovative West Midlands Bus Alliance was also created. The first of its kind in the UK, it brought together bus operators, councils, and other partners to work together to drive up standards in vehicles, performance and pollution levels, with all partners committed to improving facilities for passengers.

Customer satisfaction rates reached unprecedented levels, helping make using public transport in the West Midlands safer than ever with crime down 70% in the last eight years.

Passenger numbers using the Midland Metro grew to record levels after the extension into Birmingham City Centre. Figures increased from 5 million in 2015 to 6.6 million in 2016 after trams returned to the city centre for the first time in more than 50 years.

Following this rise in popularity, millions of pounds of inward investment will now be made available for the light rail network when TfWM assumes the operation of Midland Metro in October 2018, following the expiry of National Express' concession.

A number of extensions will see the network triple in size over the next decade, with passenger numbers forecast to increase to more than 30 million. This is expected to generate profits of around £50 million during the first 11 years, which the WMCA will be able to channel back into the network for the benefit of passengers and the local economy.

Working jointly with the Police and Crime Commissioner and business leaders, TfWM put in place plans to help cope with the anticipated congestion caused by a series of major road, rail and infrastructure projects.

Schemes include major maintenance works at the M5 Oldbury Viaduct, HS2 Phase 1, Network Rail upgrades, WMCA's own investment in HS2 Connectivity, Metro and local transport, essential maintenance and utilities works and major development in Birmingham City Centre and other locations such as Cannock.

A co-ordinated, strategic approach is the only way to create viable resilience plans to tackle the impact of major construction projects like HS2 and motorway improvement works which have already commenced.

The latest ticketing technology saw the Swift smartcard rolled out across the bus, rail and Metro network and the product receive a complete redesign. This forward-thinking approach also saw TfWM recognised nationally and internationally through a series of high-level awards conferred by industry peers, including being named City-Region Transport Authority of the Year.

Construction began on the High Speed Rail College in Birmingham as the West Midlands leads the way as a centre of excellence for the building, operation and future of the HS2 network which will rejuvenate the region and open up new markets in the UK and Europe.

3. Achieving Value for Money

Local government continues to undergo significant change, much of which has been driven by austerity measures. In order to cope with this continuing climate of austerity, WMCA has continued to develop the way in which we operate, increasing collaboration and continuing to make difficult decisions. The transition of the WMCA transport function from Centro to the new Transport for West Midlands activity has continued to drive efficiencies and to deliver the maximum value with the available funding. The transport levy has seen 12.4% reductions since 2011/12 to 2015/16 plus a further 5% in 2016/17, and 2.6% in 2017/18. The Government Gainshare Devolution grant of £36.5m per annum is fully committed to fund £1 billion of the £8 billion Investment Programme and WMCA operating costs and non-capital work programmes have been undertaken utilising restricted local authority member contributions. The Combined Authority has been in existence for less than a year but has already undertaken a review of structures to minimise funding requirement resulting in the loss of several senior staff and the ongoing re-modelling of management and assurance processes.

We have put in place and continue to develop a robust monitoring framework that measures our performance and gauges how we are doing against the Strategic Economic Plan and Strategic Transport Plan. Measures include benefits analysis, successful scheme delivery on time and to budget, key results indicators relating to operational performance, impacts, customer satisfactions, sustainability and environment.

The WMCA Governance framework ensures regular and robust monitoring and reporting of expenditure, delivery, risks, opportunity and assurance.

4. Explanation of the Statements

The Statement of Accounts have been prepared under the CIPFA/LASAAC Code of Practice on Local Combined Authority Accounting in the United Kingdom (the Code) and are for the full year from 1 April 2016 to 31 March 2017.

The Authority, in conjunction with our auditors, reviewed the accounting options for the transition of the previous West Midlands Integrated Transport Authority and West Midlands Passenger Transport Executive on 16 June 2016 to the newly formed Combined Authority and are happy to apply a merger accounting approach to the transition, being considered the best option to provide a reported true and fair view of activity expenditure and income for the year. As at 16 June 2016, all assets and liabilities were transferred to the Combined Authority with a summary audited statement reported in note 36.

The Statement of Accounts includes:

Comprehensive Income and Expenditure Statement
This statement shows the accounting cost of providing services in the year, according to the Code. An adjustment is required to be made between the accounting basis and the funding basis due to the different accounting treatments for capital grants and pension costs, further details of which are shown in the Movement in Reserves Statement. The loss for the year charged to the General Fund is £0.708m (2016: £1.023m surplus).

Movement in Reserves Statement
This statement shows the movement of the different reserves in the year. These are analysed between 'usable reserves' (those that can be applied to fund expenditure) and 'unusable reserves' (those allocated for specific purposes). The majority of the unusable reserves is the deferred capital grants accounts which relates to the capital grants received for the capital programme and will be used to fund the depreciation on the assets that the grants relate to.

Balance Sheet
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities of the West Midlands Combined Authority. The net assets (assets less liabilities) are matched by the reserves held.

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Cashflow Statement
The Cashflow Statement shows the changes in cash and cash equivalents during the year. The statement shows how the Combined Authority generates and uses cash and cash equivalents by classifying the cash flows as operating, investing and financing activities.

5. Financial Results

The financial results for the year are presented in the financial report on pages 23 to 64 of this report. These show a withdrawal from reserves of £0.71m reflecting the transport budget originally being set anticipating a planned use of reserves of £0.939m. Total usable reserves stand at £50.1m of which £35.6m are earmarked for one ongoing SEP investment programme project and £12.4m is available for ongoing services. This represents only 1.1% of the 2016/17 annual operating income from the local authority members and Government Devolution grant which is considered to be low but not unexpected given the public sector funding envelope.

The Combined Authority's net worth in the Balance Sheet is now £45.351m (2016: £27.293m net deficit). This increase of £72.7m is mainly due to unapplied Gainshare contribution of £35.6m and decrease in pension liability of £33.0m as a result from the 2016 actuarial valuation. A detailed analysis of the results is shown in the Comprehensive Income and Expenditure Statement, with further analysis and explanations given in the notes to the financial report.

The Balance Sheet includes employee benefits liability of £57.2m relating to the deferred benefit pension scheme. This recognises the actuarial valuation of the scheme assets and liabilities under IAS 19 as at 31 March 2017.

Various Combined Authority Boards and Committees monitor the actual results compared to budget on a regular basis during the year. Full details of this income and expenditure can be found in the West Midlands Combined Authority Financial Monitoring reports which are available on on the WMCA's website (https://westmidlandscombinedauthority.org.uk).

6. Financial Risk Management

Given the financial outlook in the public sector, financial risks have been reviewed and where necessary mitigations put in place. The Combined Authority believes that the reserves set aside for risks and to provide funding to back capital investments are sufficient with the general fund available to meet unexpected short-term requirements. Details of financial risk management are shown in note 29 to the financial report.

7. Borrowing facilities and sources of funds available to meet capital expenditure plans

The Combined Authority receives various Government, LEP and local authority grants to fund its capital expenditure plans. The most significant development this year has been the approval of the Devolution agreeement for the region and the £8 billion Investment Programme. As part of this agreement, the Government has agreed to pay an annual Gainshare grant fo £36.5m to leverage borrowing for the £1 billion of the planned capital investment in the region.

Currently legislation only allows WMCA to borrow for its transport investment programme. However, discussions with HM Treasury are continuing and it is hoped the required legislation can be progressed following the formation of the new Government post General Election in June 2017. Additional legislation requirements regarding business rates retention also required to fund the programme are awaiting progression by the newly formed Government.

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10. Corporate Governance

The Annual Governance Statement can be found on pages 15 to 21.

11. Directors and Senior Officers

The following directors and senior officers held office during the year:

Pre-WMCA
Chris Perry (PTE)
James Aspinall (ITA and PTE)
Keith Ireland (ITA)
Laura Shoaf (PTE)

Post-WMCA
James Aspinall
Jan Britton
Keith Ireland
Laura Shoaf
Martin Reeves
Paul Dransfield

James Aspinall resigned on 30 April 2017 as Director of Corporate Services and Responsible Finance Officer and Mark Taylor was appointed on 3 April 2017 as interim Director of Finance and Responsible Finance Officer.

12. Employees

The Combined Authority is an equal opportunity employer. The aim of our policy is to ensure that no job applicant or employee receives less favourable treatment on the grounds of their sex, marital status, disability, race, colour, nationality, ethnic or national origins or is disadvantaged by conditions or requirements which cannot be shown to be justifiable.

Through regular monitoring, reporting and team meetings, directors make employees aware of the financial and economic factors affecting them and the performance of the Authority.

The Combined Authority continues to give special attention to the health and wellbeing of their employees.

During the year, the Combined Authority was successful in retaining in the Sunday Times' top 100 Best Not-for-Profit Organisations to work for and retained Gold Investors in People accreditation.

The directors and senior officers would like to thank everyone in the organisation for their commitment and professionalism during the year, and especially in relation to the re-organisation and the work to transition to the West Midlands Combined Authority and its transformational agenda.

13. Post Balance Sheet Event

West Midlands Mayor
A central condition of the Devolution deal was the election of a West Midlands Mayor. On 4 May 2017, regional elections took place and the elected West Midlands Mayor has now taken office. The mayoral powers and functions agreed in the first Devolution deal are implemented in legislation

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approved by Parliament. The Mayor is elected for an initial three-year term and chairs the Combined Authority. As an advocate and global ambassador for the West Midlands region, the Mayor will work with the Consituent Council leaders and LEP chairs to deliver the West Midlands Devolution programme. This role includes specific areas of responsibilitiy focussed on local transport, control of the 'more and better homes' agenda and from 2018/19 the ability to raise a precept and business

rate supplement. As the Devolution agenda develops, so the role of the Mayor is expected to develop, working with Combined Authority colleagues to deliver the best outcomes for the residents and businesses of the West Midlands.

Management
As the fledgling Combined Authority develops, it is vital that the appropriate management structure is put in place to continue to drive and deliver the ambitious agenda. During summer 2017, new appointments will be made to the following posts as the current interim Directors stand aside: Chief Executive, Director of Public Service Reform, Director of Strategy and Director of Finance. In addition, the Combined Authority will continue to review and evolve its structure and resources to ensure efficient delivery through collaborative working.

Growth Company
From May 2017, a new growth company was established working as part of the Combined Authority who will work to promote the region around the world; attracting investment from overseas as well as promoting the region's business and tourism offering, and supporting the delivery of the Strategic Economic Plan.

Also to be established during summer 2017 will be a new fund management company to provide investment advice and fund management for the Combined Authority in relation to the Collective Investment Fund and Land Reclamation Fund, as well as any Constituent and non-Constituent members.

Transport
West Midlands Rail
West Midlands Rail (WMR) is a partnership of 14 Metropolitan Districts, Shires and unitary local transport authorities as well as the Combined Authority, seeking to gain greater local influence over the region's rail services. It is a limited company but does not seek to make a profit and is democratically accountable through the Board of Directors who are all senior local politicians. WMR is working collaboratively with the Department for Transport (DfT) to specify and procure the new West Midlands local rail service franchise and once the new franchise has commenced during late 2017, WMR will be overseeing the operators' delivery and performance.

Metro Operations
On 17 March 2017, the Combined Authority approved plans for Transport for West Midlands (TfWM), the transport arm of the Combined Authority to take the day-to-day operation of the Midland Metro light rail service in-house through a wholly-owned subsidiary of the Combined Authority. Significant work will be undertaken during the forthcoming year to ensure effective transfer of operation when the current concession expires in October 2018.

14. Auditors

Grant Thornton (UK) LLP are the auditors of the West Midlands Combined Authority for 2016/17. Their appointment was made under part 2 of the Audit Commission Act 1998.

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On behalf of the Combined Authority Board

Martin Reeves
Chief Executive
Date:

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1. The Combined Authority Board's Responsibilities

The Board is required to:
(i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. These responsibilities are discharged through the role of the Responsible Finance Officer (RFO) which during 2016/17 were:

Body	Period	Individual	Role
West Midlands Integrated Transport Authority	1 April 2016 - 16 June 2016	James Aspinall	Director of Corporate Services
West Midlands Passenger Transport Executive	1 April 2016 - 16 June 2016	Linda Horne	Head of Finance
West Midlands Combined Authority	17 June 2016 - 31 March 2017	James Aspinall	Director of Corporate Services

(ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

(iii) Approve the Statement of Accounts.

2. The RFO's Responsibilities

The RFO is responsible for the preparation of the Combined Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the RFO has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local Authority Code.

The RFO has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the accounts

I certify that this Statement of Accounts gives a true and fair view of the financial position of West Midlands Combined Authority at the reporting date and of its income and expenditure for the year ended 31 March 2017.

Mark Taylor
Interim Director of Finance and Responsible Finance Officer
Date:

4. Approval of the Accounts

I certify that the Statement of Accounts covering the period 1 April 2016 to 31 March 2017 were approved by a resolution of the West Midlands Combined Authority Board Committee on DDMMYYYY.

Andy Street
Mayor and Chair of the West Midlands Combined Authority
Date:

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Scope of Responsibility

This Annual Governance Statement reflects the activities of West Midlands Integrated Transport Authority/West Midlands Passenger Transport Executive (Centro) up until 17 June 2016. From 17 June 2016 Centro ceased to exist and by virtue of the West Midlands Combined Authority Order 2016 all of its functions, rights property and liabilities transitioned to WMCA.

The WMCA is made up of seven district councils, constituent and non-constituent members and three Local Enterprise Partnerships (LEPs).

The constituent authorities for the West Midlands Combined Authority are:

- 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 authorities for the West Midlands Combined Authority are:

- Cannock Chase District Council
- Nuneaton and Bedworth Borough Council
- Redditch Borough Council
- Tamworth Borough Council
- Telford and Wrekin Council

The West Midlands Combined Authority covers a three LEP geography and each of the LEPs has joined the WMCA as a non-constituent member. They are:

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

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 economic growth.

The Purpose of the Governance Framework

WMCA 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.

The WMCA Governance framework forms part of the Constitution and details the Boards and Committees which provide oversight and assurance.

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

In discharging this overall responsibility, WMCA Leadership Board 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 and that enables WMCA to:

1. Govern affairs
2. Exercise leadership
3. Facilitate the effective exercise of functions, including arrangements for the management of risk
4. To be held accountable for its decisions and activities.

In relation to (3) WMCA 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:

a) Identify and prioritise the risks to the achievement of our policies, aims and objectives; and
b) Evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

WMCA has developed a Risk Management Strategy and strategic risk register, which is reported to regular meetings of the Authority's Audit, Risk and Assurance Committee and provides visibility of risk at operational, program and strategic levels.

Annual Governance Statement

This Annual Governance Statement has been produced in line with the guidance outlined in the framework document published by the Chartered Institute of Public Finance Accountancy (CIPFA) 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)', which applies to annual governance statements prepared for the financial year 2016/17 onwards.

These seven principles are:

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

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The Governance Framework

1. 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; this defines standards of behaviour for Members and officers working on behalf of the Authority. The Head of Organisation Development deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to WMCA Board.

WMCA embeds standards of conduct and behaviour through promoting a culture with 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, 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 are performance driven and deliver to a high standard
- We deliver on expectations and raise the game through clear goals
- 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 to work in
- We value diversity and consider other people's viewpoints

The business of WMCA is 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. This is underpinned with member inductions and Code of Conduct, meeting protocols and processes and policies and procedures that ensure transparency as well as a route for concerns to be raised.

2. Ensuring openness and comprehensive stakeholder engagement

Communications & engagement strategies ensure engagement.

Freedom of Information Act is published and a process in place to respond.

Meeting reports show details of business cases and discussions between members. Records of decision making and supporting materials are retained.

Dates for submitting, publishing and distributing timely reports is adhered to.

3. Defining outcomes in terms of sustainable economic, social, and environmental benefits

WMCA is focused on delivering value for money and success in this respect is reviewed by independent auditors in line with the NAO's auditor's guidance note (AGN03). The results of our Value for Money audit work and the key messages arising will be reported in an Audit Findings Report and in the Annual Audit Letter.

WMCA look to embed a requirement for social value in procurement and other activities.

WMCA works to ISO14001 and the Environmental Management Strategy puts forward specific environmental initiatives.

An annual report communicates WMCA activities and achievements.

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4. Determining the interventions necessary to optimise the achievement of the intended outcomes

During the creation of West Midlands Combined Authority (WMCA) a Shadow Board was in place. The WMCA Board came into being on 29 June 2016.

WMCA's purpose and vision are detailed in the Strategic Economic plan (SEP). This presents a clear view of strategic priorities and financial planning to meet these needs.

WMCA ensure the purpose and vision is clear and well communicated.

A scheme of delegation is laid out in the Constitution.

Business planning and objectives setting ensures we are focussed on delivering the outcomes of the Strategic Economic Plan; creating the best possible conditions for growth in jobs, investment and living standards, enabling residents to develop high-level skills so they can benefit long into the future.

WMCA have a Clear Financial Strategy that includes short, medium and long term financial plans. Budget guidance and protocols are followed.

WMCA ensure the vision and the implications for governance arrangements are reviewed through the budget and performance management frameworks.

WMCA inclusivity work ensures engagement from all members of society.

The collective and individual roles and responsibilities of the Leadership Board, Members and officers have been agreed by WMCA Board.

The roles and responsibilities of the Board, Scrutiny and officer functions have been defined and documented in the Constitution, with clear delegation arrangements and protocols for effective communication

WMCA ensures compliance with relevant laws and regulations, internal policies and procedures.

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

An interim senior management team has been established to ensure continuity and focus during the formation of WMCA.

WMCA People and Change Strategy provides a frame-work for the development of the organisations capability and policies ensure appropriate processes are followed.

Induction programs and development plans are in place for Members and Officers.

Roles and responsibilities are specified in job descriptions.

The Constitution outlines accountabilities.

Personal objectives are set and there are regular performance appraisals and development planning.

WMCA has attained IIP Gold and uses the Best Companies framework to benchmark people matters.

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A leadership development program is being developed.

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.

Audit, Risk and Assurance Committee (ARAC) members have received finance training to allow them to understand financial accounts and reporting.

6. Managing risks and performance through robust internal control and strong public financial management

The transition from Centro to WMCA was managed through a structured program of activity that ensured existing services continued as normal and the emerging activities of WMCA were absorbed in a controlled manner. During this time, all risks associated with transition were identified and managed.

On the formation of WMCA a new governance structure was introduced, to ensure activities were conducted in line with the requirements of the Constitution. Risk management, audit and assurance processes were adjusted to ensure the wider concerns of WMCA are robustly monitored and reported.

The Audit, Risk and Assurance Committee (ARAC) is independent of the executive and scrutiny function. They monitor and review risk and governance processes, and results, in order to provide assurance to WMCA board on their effectiveness.

A robust assurance framework ensures governance and process are independently reviewed and reported and the risks have been identified and are being adequately managed. 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. Professional advice and good quality information is provided to ensure those making decisions are provided with relevant information that is fit for purpose.

Compliance with Public Sector Internal Audit Standards.

Risk management is embedded in the culture; accountabilities and responsibilities defined within roles, and with processes determining ways of working, managing and reporting risk.

Arrangements are in place for "Whistle-blowing" and for receiving and investigating complaints from the public.

7. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The WMCA website is used as a channel to share general information as well as published reports.

The communications team support the production of key documents to ensure key information is presented in a way that is clear to the intended audience.

The formal annual report includes key points raised by external scrutineers and service users.

WMCA have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

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WMCA incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements. We assess the effectiveness of relationship frameworks in order to identify any changes required.

Report recommendations are allocated to owners and they have informed positive improvements.

WMCA is rigorous and transparent about decision making and the recording of decisions. The Overview and Scrutiny Committee reviews and challenges the work and decisions of WMCA and make policy suggestions.

Annual Review of Effectiveness of Governance Framework

The Opinion of the Head of Governance 2016/17

The Head of Governance is content that the system of internal assurance is robust and providing visibility of risk to the senior management teams.

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 & 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 the period 2016 / 2017, the ‘key financial systems’ and Procurement audits were given ‘Substantial’ rating by internal audit and Metro Alliance a satisfactory level of assurance. This demonstrates that the systems and processes around audit, risk and governance are effective.

A new assurance framework was agreed by the Audit & Risk Committee in March 2016 and approved by DCLG in July 2016; as an integral part of agreeing devolution of powers to WMCA. The framework reviews internal delivery and the work of WMCA delivery partners, to ensure work delivered adheres to policy and legislative requirements and management processes identify risks to delivery.

Project & Programme Assurance Arrangements for Transport for West Midlands (Minor Projects) were strengthened in 2016 with a clear separation of assurance and approvals. The corporate assurance team undertake independent project assurance reviews and present the findings to the Delivery Boards to assist in the decision making process.

Project & Programme Assurance Arrangements for WMCA Major Projects (Investment Programme) is given by the technical Appraisal Panel prior to the approval and release of funding. The arrangements will be subject to independent review as part of the 2017/18 audit plan.

Risks are monitored and managed locally and reported upwards to a corporate risk register. Corporate risks are analysed and reported to WMCA Management Board and ARAC. The assurance framework aligns with a new risk management which is to be introduced from April 2017. The new framework will align risks across WMCA delivery portfolios to provide visibility of key strategic risks. WMCA Programme Board confirmed the risk categories and tolerance levels and the Assurance team will monitor these on an on-going basis.

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Conclusion

In undertaking the review of internal control and governance framework, WMCA 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 action taken.

Since the formation of WMCA, many arrangements have been adjusted to incorporate the wider activities specified in the Devolution deal and delivered collaboratively; these include adjustments to meeting structures, audit and assurance, risk management and investment scheme protocols.

As WMCA continues to form, strategies, policies and procedures will be reviewed to ensure they remain fit for purpose and the requirements of CIPFA 2016 guidance are met in full. The impending appointment of the Mayor and senior roles will enable consolidation of approach, and in conjunction with these appointments, re-alignment of accountabilities and responsibilities will be addressed.

On behalf of the West Midlands Combined Authority

Andy Street
Mayor and Chair of the West Midlands Combined Authority
Date:

Martin Reeves
Chief Executive
Date:

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TO BE PROVIDED UPON AUDIT COMPLETION

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The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing the Combined Authority's services in accordance with generally accepted accounting practices, rather than the amount to be funded from resources. The reconciliation from the accounting cost to the funding position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

		2015/2016					**2016/2017**
Gross Expenditure	**Gross Income**	**Net Expenditure**			**Gross Expenditure**	**Gross Income**	**Net Expenditure**
£'000	£'000	£'000		Notes	£'000	£'000	£'000
222,953	(51,904)	171,049	Transport services	5	234,203	(44,744)	189,459
-	-	-	Combined Authority other services	6	2,235	(62)	2,173
-	-	-	Economic development	7	2,518	-	2,518
222,953	**(51,904)**	**171,049**	**Cost of services**		**238,956**	**(44,806)**	**194,150**
12,336	-	12,336	Other operating expenditure	8	405	-	405
12,139	(386)	11,753	Financing and investment income and expenditure	9	12,151	(224)	11,927
-	(202,617)	(202,617)	Taxation and non-specific grant income and expenditure	10	-	(234,081)	(234,081)
247,428	**(254,907)**	**(7,479)**	**(Surplus) or deficit on provision of services**		**251,512**	**(279,111)**	**(27,599)**
		-	(Surplus) or deficit on revaluation of property, plant and equipment	26			(7,065)
		19,823	Remeasurement of the net defined benefit liability	28			(37,980)
		19,823	**Other Comprehensive Income and Expenditure**				**(45,045)**
		12,344	**Total Comprehensive Income and Expenditure**				**(72,644)**
		6,601	Adjustments between funding and accounting basis under regulations	4			28,604
		(19,823)	Transfer to Pensions Reserve	28			37,980
		-	Transfer to Capital Adjustment Account	26			7,065
		(145)	Transfers to/from Earmarked Reserves	25			(297)
		(1,023)	**(Surplus) or deficit for the year under funding basis**				**708**

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The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Combined Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and 'unusable reserves' (i.e. those allocated for specific purposes). This statement shows how the movements in the year are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts to be funded from resources.

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	Usable reserves			Unusable reserves			
	General Fund Balance	**Earmarked Reserves**	**Capital Receipts Reserve**	**Reval-uation Reserve**	**Capital Adjustment Account**	**Pensions Reserve**	**Total reserves**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2015	**4,359**	**10,498**	**191**	**7,589**	**42,728**	**(80,314)**	**(14,949)**
Movements in reserves during 2015/16							
Total comprehensive income and expenditure	7,479	-	-	-	-	(19,823)	(12,344)
Adjustments between accounting basis and funding basis under regulations	(6,601)	5,171	56	(212)	(1,622)	3,208	-
Increase or (decrease) in 2015/16 before transfer to earmarked reserves	**878**	**5,171**	**56**	**(212)**	**(1,622)**	**(16,615)**	**(12,344)**
Transfers to/from earmarked reserves	(2,715)	2,715	-	-	-	-	-
Balance at 31 March 2016 carried forward	**2,522**	**18,384**	**247**	**7,377**	**41,106**	**(96,929)**	**(27,293)**
Movements in reserves during 2016/17							
Total comprehensive income and expenditure	27,599	-	-	7,065	-	37,980	72,644
Adjustments between accounting basis and funding basis under regulations	(28,604)	29,952	-	(213)	(2,918)	1,783	-
Increase or (decrease) in 2016/17 before transfer to earmarked reserves	**(1,005)**	**29,952**	**-**	**6,852**	**(2,918)**	**39,763**	**72,644**
Transfers to/from reserves	297	(297)	-	(7,065)	7,065	**-**	-
Balance at 31 March 2017 carried forward	**1,814**	**48,039**	**247**	**7,164**	**45,253**	**(57,166)**	**45,351**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Combined Authority. The net assets (assets less liabilities) are matched by the reserves held by the Combined Authority. Reserves are reported in two categories – usable and unusable. Usable reserves are those that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that the Combined Authority is not able to use for the provision of services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences in capital investment (the Capital Adjustment Account).

	Notes	2017 £'000	2016 £'000
Intangible assets	15	-	-
Property, plant and equipment	16	259,802	245,895
Long-term investments	17	22,000	-
Long-term assets		**281,802**	**245,895**
Short-term debtors	18	25,634	25,803
Cash and cash equivalents	19	28,303	29,347
Current assets		**53,937**	**55,150**
Short-term borrowing	20	(7,663)	(7,781)
Finance lease liabilities	21	(1,684)	(1,647)
Short-term creditors	22	(47,086)	(36,843)
Provisions	23	(5,803)	(6,297)
Grants receipts in advance - revenue	11	(1,226)	(1,227)
Transferred debt	24	(626)	(569)
Current liabilities		**(64,088)**	**(54,364)**
Net current assets/(liabilities)		**(10,151)**	**786**
Long-term borrowing	20	(152,416)	(157,719)
Finance lease liabilities	21	(991)	(2,677)
Provisions	23	(1,000)	(1,000)
Grants receipts in advance - capital	11	(6,854)	(13,450)
Transferred debt	24	(7,873)	(8,499)
Net pension liability	28	(57,166)	(90,629)
Long-term liabilities		**(226,300)**	**(273,974)**
Net assets/(liabilities)		**45,351**	**(27,293)**
General Fund Balance	25	1,814	2,522
Earmarked Reserves	25	48,039	18,384
Capital Receipts Reserve	25	247	247
Usable reserves		**50,100**	**21,153**
Revaluation Reserve	26	7,164	7,377
Capital Adjustment Account	26	45,253	41,106
Pensions Reserve	26	(57,166)	(96,929)
Unusable reserves		**(4,749)**	**(48,446)**
Total reserves		**45,351**	**(27,293)**

This unaudited financial report was certified by Mark Taylor on 15 May 2017.

CASHFLOW STATEMENT

The Cashflow Statement shows the changes in cash and cash equivalents of the Combined Authority during the reporting period. The statement shows how the Combined Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations are funded by way of grant income or from the recipients of services provided by the Combined Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Combined Authority's future service delivery.

	2017	2016
	£'000	£'000
Net (deficit)/surplus on the provision of services	27,598	7,479
Adjustments to net surplus or deficit on the provision of services for non-cash movements		
Depreciation and impairment of non-current assets	15,508	14,529
Amortisation of intangible assets	-	62
Net amounts of non-current assets written off on disposal	1,017	12,336
Change in pensions reserve	(1,783)	(3,208)
Decrease in short-term debtors	169	7,177
Pension prepayment 2016/17	6,300	(6,300)
Increase in short-term creditors	10,242	2,589
Increase/(decrease) in provisions	(494)	990
Net interest payable	9,472	9,568
Interest paid	(9,826)	(9,878)
Interest received	224	303
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants received	(68,584)	(71,217)
Capital grants paid	45,759	43,695
Net cash flows from operating activities	**35,602**	**8,125**
Investing activities		
Purchase of property, plant and equipment	(23,366)	(41,518)
Proceeds from disposal of property, plant and equipment	-	247
Capital grants received for the purchase of property, plant and equipment	22,825	27,522
Decrease/(increase) in long-term investments	(22,000)	-
Decrease/(increase) in short-term investments	-	10,000
Net cash flows from investing activities	**(22,541)**	**(3,749)**
Financing activities		
Payment of finance lease liabilities	(1,649)	(1,610)
Decrease in capital grants receipts in advance	(6,596)	(15)
Repayment of loans	(5,291)	(280)
Deferred liability - repayment of principal	(569)	(517)
Net cash flows from financing activities	**(14,105)**	**(2,422)**
Net increase or decrease in cash and cash equivalents	**(1,044)**	**1,954**
Cash and cash equivalents at 1 April	29,347	27,393
Cash and cash equivalents at 31 March (note 19)	**28,303**	**29,347**

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1. Basis of preparation

a) General principles

The Statement of Accounts summarises the Combined Authority's transactions for the 2016/17 financial year and its position as at 31 March 2017. The Combined Authority is required to prepare an Annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

b) Basis of preparation

The accounts have been prepared on a historical cost basis modified by the revaluation of certain categories of non-current assets in accordance with the Code. Income and expenditure is accounted for on an accruals basis (recognised in the period to which they relate) rather than when cash payments are made or received.

c) Merger accounting

The West Midlands Combined Authority came into existence on 17 June 2016 by virtue of the West Midlands Combined Authority Order 653/2016 (the Order). At the same time the West Midlands Integrated Transport Authority (ITA) and the West Midlands Passenger Transport Executive (PTE) ceased to exist and all of their functions, property, rights or liabilities transferred to the Combined Authority under the provisions of the Order.

The transfer to the Combined Authority has been accounted as a "Transfer by Merger" under the Code so the Combined Authority's accounts for the 2016/17 financial year have been prepared as if the functions transferred from the ITA and PTE had always been included within it. The Board believe that preparing 12 months accounts for 2016/17, together with prior year comparatives represents the true and fair presentation of the financial position for the 2016/17 year as the management and operation of the organisation has not changed.

A statement of the carrying amount of the net assets transferred at the merger date (17 June 2016) is disclosed in note 36 together with an analysis of the principle components of the Surplus or Deficit on the Provision of Services and of Other Income and Expenditure pre- and post-merger.

d) Going concern

The accounts of the Combined Authority have been prepared on a going concern basis. The transfer under the Order was deemed to be a transfer of services under combinations of public sector bodies and therefore the presumption of going concern continues in accordance with the Code.

2. Significant accounting policies

a) Consolidation

The accounts of Centro Properties Limited, Midland Metro Limited, Network West Midlands Limited and West Midlands Rail Limited which are wholly owned subsidiaries of the Combined Authority have not been consolidated with those of the Combined Authority because the companies have never traded and do not hold any assets or liabilities.

b) Taxation

Corporation, income and capital gains tax

The Combined Authority is exempt from corporation, income and capital gains tax by virtue of regulations section 74 of the Local Government Finance Act 1988.

Value added tax (VAT)
Revenues, expenses and assets are recognised net of the amount of VAT except:

- Irrecoverable VAT on the purchase of assets or services is recognised as an expense in the income statement.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from HMRC, or payable to the Combined Authority is included as part of receivables or payables in the Balance Sheet.

c) Income
Revenue grants and other funding income is recognised on an accruals basis where there is reasonable assurance that the income will be received and all attached conditions have been complied with.

Income other than grant income, which all arises within the United Kingdom and is stated net of VAT, represents income arising from bus station departure charges, the provision of timetable information, rental income and advertising revenues. Income is recognised to the extent that reliably measured economic benefits will flow to the Combined Authority and includes estimates in respect of services provided and rental income which have not been invoiced at the period end.

d) Government grants and other contributions
Grants and contributions are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement, except to the extent that the grant or contribution has a condition that the Combined Authority has not satisfied. Where a grant has been received and conditions remain outstanding at the Balance Sheet date, the grant is recognised in the Balance Sheet as grants receipts in advance. Once the condition has been met, the grant or contribution is transferred from grants receipts in advance and recognised as income in the Comprehensive Income and Expenditure Statement.

With respect to capital grants, if the expenditure to be financed from the grant has been incurred at the Balance Sheet date, the grant is transferred from the general fund to the Capital Adjustment Account via the Movement in Reserves Statement. If the expenditure has not been incurred at the Balance Sheet date, the grant is transferred to the capital grants unapplied reserve via the Movement in Reserves Statement. When the expenditure is incurred, the grant is transferred to the deferred capital grants account via the Movement in Reserves Statement.

With respect to revenue grants, if the expenditure has not been incurred at the Balance Sheet date, the grant is transferred to earmarked reserves via the Movement in Reserves Statement. When the expenditure is incurred, the grant is transferred back via the Movement in Reserves Statement.

***e)* Revenue expenditure funded from capital under statute**
Revenue expenditure funded from capital under statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a non-current asset on the Balance Sheet.

- The Combined Authority receives grants from the DfT which it administers and passes onto District Councils. This expenditure does not form part of the Combined Authority's capital programme but is included within REFCUS.
- As part of its policy of improving and co-ordinating public transport within the area, the Combined Authority meets the cost of up-grading transport facilities within the West Midlands. These costs are attributed to tangible assets where possible with the remainder written off to Cost of Services in the year as REFCUS.
- The Combined authority makes payments of capital grants and contributions to District Councils and other organisations carrying out economic development and regeneration functions on behalf of the Combined Authority. These are included within REFCUS.

REFCUS is charged to the Cost of Services as the expenditure is incurred and reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

f) Pensions scheme

Employees of the Combined Authority are members of the West Midlands Pension Fund. This is a funded defined benefits career average salary statutory scheme administered by the City of Wolverhampton Council in accordance with the Local Government Pension Scheme Regulations 2013 (previously a funded defined benefits final salary statutory scheme). The scheme provides defined benefits to members (e.g. retirement lump sums and pensions) which are earned as employees who worked for the West Midlands Combined Authority. The fund is valued every three years by a professionally qualified independent actuary.

Pension costs have been charged to the Comprehensive Income and Expenditure Statement and the Combined Authority's share of the fund's assets and liabilities are recognised in the Balance Sheet in accordance with IAS 19. The Comprehensive Income and Expenditure Statement has therefore been charged with the full cost of providing for future pension liabilities arising from in-year service.

In the Movement in Reserves Statement an appropriation equal to the difference between this amount and the actual employer's pension contribution is made to the Pensions Reserve, so that any additional costs arising from applying IAS 19 do not impact on the amount to be levied on the Local Authorities, and therefore ensuring no additional impact on local taxation. This appropriation is made under the general application of the Code. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

g) Financial assets

The Combined Authority's financial assets include trade debtors, short-term investments and cash and cash equivalents. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Deposits with original maturities of over three months are classified as short-term investments. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. For the purpose of the Cashflow Statement, bank overdrafts that are repayable on demand and form an integral part of the Combined Authority's cash management are included as a component of cash and cash equivalents.

Trade debtors are recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should such an amount become uncollectable, it is written off to the Comprehensive Income and Expenditure Statement in the period in which it is recognised.

h) Financial liabilities

Financial liabilities include loans and borrowings and trade creditors. Loans and borrowings consist of bank overdrafts and finance leases.

Financial liabilities are recognised initially at cost. Subsequent to initial recognition loans and borrowings are measured at amortised cost using the effective interest method. Trade creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Comprehensive Income and Expenditure Statement in the period in which it is recognised. For finance leases see note 2(j).

Financial assets and liabilities are offset and the net amount presented in the Balance Sheet when, and only when, the Combined Authority has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

i) Property, plant and equipment

Recognition and measurement

Infrastructure and assets under construction are measured at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Assets classified as infrastructure include bus and railway stations, bus shelters, park and ride sites, trams and Midland Metro infrastructure. As all bus stations and park and ride sites were valued as at 31 December 2008 by Lambert Smith Hampton, for the conversion to accounting under the Code, historical cost is deemed to be the carrying amount of the asset at 31 March 2009 or at the date of acquisition (if later) adjusted for subsequent depreciation.

All other assets are measured at fair value. Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for fair value as they have short useful lives and/or low values. Fair value for land and buildings is interpreted by the Code as the amount that would be paid for the asset in its existing use. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The Combined Authority does not have a de-minimis level for capitalisation. Each capital project is reviewed on an individual basis and the costs considered for capitalisation. Non-enhancing expenditure is written off to the Comprehensive Income and Expenditure Statement.

Any revaluation surplus is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Comprehensive Income and Expenditure Statement, in which case the increase is recognised in the Comprehensive Income and Expenditure Statement. A revaluation deficit is recognised in the Comprehensive Income and Expenditure Statement, except to the extent that it offsets an existing surplus on the same asset in the revaluation reserve.

An annual transfer is made from the revaluation reserve to the general fund for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other operating expenditure. When revalued assets are sold, any revaluation reserve relating to the particular asset is transferred to the general fund.

Depreciation

Depreciation is calculated on a straight line basis over the estimated useful life of the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. A full year's depreciation is charged in the financial year that the asset becomes operational. No depreciation is charged in the year of disposal.

Fixed assets are recorded at significant component level. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately. The estimated useful lives for the current and comparative periods are as follows:

- Buildings 40 years
- Equipment 5 – 40 years
- Midland Metro
  - Infrastructure 10 - 30 years
  - Trams 30 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Midland Metro – future routes
Expenditure, other than land purchase, on other areas of the network will be capitalised once approval for a particular line is received and the development is likely to proceed. Development costs are written off in the year. Land acquired for the expansion of the network is capitalised and included in land, measured at fair value.

Assets under construction
Expenditure in respect of assets which are not yet complete at the reporting date is classified as assets under construction. Upon the asset becoming operational, the expenditure is transferred to property, plant and equipment. In the event that capital expenditure does not directly result in an operational asset, the costs are recognised within the Comprehensive Income and Expenditure Statement.

j) Leases
Leases in terms of which the Combined Authority assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the Comprehensive Income and Expenditure Statement.

Operating leases are not recognised in the Balance Sheet but charged as an expense in the Comprehensive Income and Expenditure Statement on a straight line basis over the lease term.

k) Impairment

Financial assets (including receivables)
Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Non-financial assets
The carrying value of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

Impairment losses are recognised in the Comprehensive Income and Expenditure Statement. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

l) Provisions and contingent liabilities
Provisions are recognised when the Combined Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to the provision is recognised in the Comprehensive Income and Expenditure Statement.

A contingent liability arises where an event has taken place that gives the Combined Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Combined Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

m) Minimum Revenue Provision

Capital Finance Regulations require the Combined Authority to provide for the repayment of long-term capital programme borrowing through a revenue charge in accordance with the Minimum Revenue Provision (MRP) requirements. The MRP policy is detailed within the Treasury Management Strategy and agreed by the Combined Authority prior to the start of the financial year. The approved MRP statement for the current year is:-

- “For capital expenditure incurred before 1st April 2009 or which in future will be financed by supported borrowing, MRP will be broadly based as being 2% of the underlying Capital Financing Requirement. For 2016/17 MRP was calculated at 2% (2016: 4%).
- From 1st April 2009 for all capital expenditure met from unsupported or prudential borrowing, MRP will be based on the estimated life of the asset or a depreciation calculation.”
- MRP will commence in the financial year after the asset has become operational.

A revenue charge is also made to provide for the repayments of the former West Midlands County Council inherited debt of the Combined Authority.

n) Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

3. Critical accounting judgements, estimates and assumptions

The preparation of the financial report in conformity with the Code requires the Combined Authority to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

In applying the accounting policies set out in note 2, the Combined Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The Combined Authority does not consider that there are any complex transactions that are not covered by the accounting policies outlined in note 2, that required any judgements and hence disclosure.

Estimates and assumptions

The financial report contain estimated figures that are based on assumptions about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Balance Sheet at 31 March 2017 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

- Property revaluation:
  The Combined Authority carries its land and buildings and land held for future expansion at fair value. Periodically, external surveyors are used, and the last full independent survey was carried out as at 31 March 2014. Between independent surveys desktop reviews are carried out by the external valuers at the Balance Sheet date. Such valuations and any attached estimates are subject to some sensitivity.

- Pension benefits:
  The cost of defined benefit pension plans is determined using independent actuarial valuation involving the use of assumptions about discount rates, returns on assets, future salary increases, mortality rates and future pension increases. Such assumptions are reviewed at each period end, and determined jointly between the pension fund management and the actuaries. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next full actuarial valuation and will require a subsequent contribution adjustment to bring the funding back into line with target.

  The effects of changes in individual assumptions have been measured by the funds actuaries in their 2017 IAS 19 valuation report:

  - A 0.1% p.a. increase in the discount rate will reduce the pension fund liability by £4.383m.
  - A 0.1% p.a. decrease in the discount rate will increase the pension fund liability by £4.448m.
  - An increase of life expectancy at retirement by 1 year will increase the pension fund liability by £12.966m.
  - A decrease of life expectancy at retirement by 1 year will decrease the pension fund liability by £12.446m.
  - 0.1% p.a. increase in inflation will increase the pension fund liability by £3.921m.
  - 0.1% p.a. decrease in inflation will decrease the pension fund liability by £3.870m.

4. Expenditure and Funding Analysis

(a) Expenditure and Funding Analysis

The Expenditure and Funding analysis shows how annual expenditure is used and funded from resources (transport levy, government grants, constituent and non-constituent contributions) by the Combined Authority in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Combined Authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/2016 Net expenditure chargeable to the General Fund	2015/2016 Adjustments between funding and accounting basis (Note 4b)	2015/2016 Net expenditure in the Comprehensive Income and Expenditure Statement		2016/2017 Net expenditure chargeable to the General Fund	2016/2017 Adjustments between funding and accounting basis (Note 4b)	2016/2017 Net expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
121,037	50,012	171,049	Transport services	116,731	72,728	189,459
-	-	-	Combined Authority other services	2,173	-	2,173
-	-	-	Economic development	2,518	-	2,518
121,037	**50,012**	**171,049**	**Cost of services**	**121,422**	**72,728**	**194,150**
-	12,336	12,336	Other operating expenditure	-	405	405
9,485	2,268	11,753	Financing and investment income and expenditure	9,472	2,455	11,927
(131,400)	(71,217)	(202,617)	Taxation and non-specific grant income and expenditure	(129,889)	(104,192)	(234,081)
(878)	**(6,601)**	**(7,479)**	**(Surplus) or deficit on provision of services**	**1,005**	**(28,604)**	**(27,599)**
(4,359)			Opening General Fund balance	(2,522)		
2,715			Transfers to/from earmarked reserves	(297)		
(2,522)			**Closing General Fund balance**	**(1,814)**		

(b) Note to the Expenditure and Funding Analysis

This note provides an analysis of the adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are shown in the Movement in Reserves Statement.

Adjustments for 2016/17

	Adjustments for capital purposes				Pensions	Total
	Depreciation/ loss on disposal	REFCUS	Grants/ contributions	Financing	adjustments	adjustments
	£'000	£'000	£'000	£'000	£'000	£'000
Transport services	15,508	61,112	5,827	(5,481)	(4,238)	72,728
Combined Authority other services	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Net cost of services	**15,508**	**61,112**	**5,827**	**(5,481)**	**(4,238)**	**72,728**
Other operating expenditure	405	-	-	-	-	405
Financing & investment income & expenditure	-	-	-	-	2,455	2,455
Taxation & non-specific grant income & expenditure	-	-	(104,192)	-	-	(104,192)
(Surplus) or deficit on provision of services	**15,913**	**61,112**	**(98,365)**	**(5,481)**	**(1,783)**	**(28,604)**

Prior year comparatives

	Adjustments for capital purposes				Pensions	Total
	Depreciation/ loss on disposal	REFCUS	Grants/ contributions	Financing	adjustments	adjustments
	£'000	£'000	£'000	£'000	£'000	£'000
Transport services	14,589	52,918	(3,889)	(8,130)	(5,476)	50,012
Combined Authority other services	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Net cost of services	**14,589**	**52,918**	**(3,889)**	**(8,130)**	**(5,476)**	**50,012**
Other operating expenditure	12,336	-	-	-	-	12,336
Financing & investment income & expenditure	-	-	-	-	2,268	2,268
Taxation & non-specific grant income & expenditure	-	-	(71,217)	-	-	(71,217)
(Surplus) or deficit on provision of services	**26,925**	**52,918**	**(75,106)**	**(8,130)**	**(3,208)**	**(6,601)**

Depreciation - charges for depreciation of non-current assets and loss on disposal of property, plant and equipment are chargeable to the Comprehensive Income and Expenditure Statement under proper accounting practices.

REFCUS - revenue expenditure funded from capital under statute is added to the transport services line as these are chargeable to Cost of Services under proper accounting practices. The Combined Authority receives grants from the DfT which it administers and passes onto district partners. This expenditure does not form part of the Combined Authority's capital programme but is included within REFCUS. Also included within REFCUS are amounts written off to cost of services in respect of capital development schemes.

Grants/contributions - revenue grants within transport services and the Gainshare contribution within non-specific grant income and expenditure are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is also credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Financing - the statutory charges for capital financing i.e. Minimum Revenue Provision, debt repayment and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Pensions adjustments - the adjustment to corporate services represents the removal of the employer contributions made by the Combined Authority as allowed by statute and the replacement with current service costs and past service costs calculated under accepted accounting practices (IAS 19). The adjustment to Financing and Investment Income and Expenditure is the net interest on the defined benefit liability charged to the Comprehensive Income and Expenditure Statement under IAS 19.

5. Transport services

An analysis of income and expenditure by activity for the year is as follows:

Analysis for 2016/17	**Gross Expenditure** £'000	**Grants Received** £'000	**Other Income** £'000	**Net Expenditure** £'000
Concessions	68,496	-	(469)	68,027
Bus services	28,684	(1,793)	(6,857)	20,034
Rail services	4,007	-	(1,145)	2,862
Fares and ticketing*	30,627	-	(30,627)	-
Integration	8,491	(363)	(1,588)	6,540
Business support costs	4,249	(100)	(286)	3,863
Policy and strategy and elected member services	1,785	-	(45)	1,740
LSTF/Midlands Connect/BBAF programmes	7,298	(7,298)	-	-
Finance charges	6,811	-		6,811
Deregulation pension costs	6,854	-	-	6,854
Net expenditure chargeable to the General Fund	**167,302**	**(9,554)**	**(41,017)**	**116,731**
Adjustments between funding and accounting basis (note 4)	66,901	5,827	-	72,728
Per Comprehensive Income and Expenditure Statement	**234,203**	**(3,727)**	**(41,017)**	**189,459**

Comparatives for 2015/16	**Gross Expenditure** £'000	**Grants Received** £'000	**Other Income** £'000	**Net Expenditure** £'000
Concessions	72,603	-	(449)	72,154
Bus services	28,751	(1,276)	(8,509)	18,966
Rail services	3,118	-	(105)	3,013
Fares and ticketing *	29,475	-	(29,475)	-
Integration	6,619	-	(908)	5,711
Business support costs	4,001	-	(545)	3,456
Policy and strategy and elected member services	1,693	-	(105)	1,588
LSTF/Midlands Connect/BBAF programmes	6,631	(6,631)	-	-
Finance charges	8,974	-	-	8,974
Deregulation pension costs	7,187	-	(12)	7,175
Net expenditure chargeable to the General Fund	169,052	(7,907)	(40,108)	121,037
Adjustments between funding and accounting basis (note 4)	53,901	(3,889)	-	50,012
Per Comprehensive Income and Expenditure Statement	**222,953**	**(11,796)**	**(40,108)**	**171,049**

***Fares and ticketing**
The Combined Authority manages and administers two public transport ticketing schemes in the West Midlands on behalf of bus, tram and rail operators. The nNetwork scheme is a ticketing system which allows holders of period tickets to travel on bus, rail and Metro services within the West Midlands. The nBus and Bus/Metro schemes are ticketing systems covering the majority of bus services within the West Midlands and also Midland Metro. The net revenue of these schemes is paid out to public transport operators on an agreed basis.

6. Combined Authority's other services

	2016/17	2015/16
	£'000	£'000
Land Commission	323	-
Mental Health Commission	294	-
Productivity and Skills Commission	30	-
Public Service Reform	247	-
Collective Investment Fund	292	-
Communications	152	-
Culture and Tourism	16	-
Programme, Policy and Governance	764	-
Transport	117	-
Gross expenditure	2,235	-
Income:		
Grant - DWP	(62)	-
Gross income	(62)	-
Per Comprehensive Income and Expenditure	2,173	-

7. Economic development

	2016/17	2015/16
	£'000	£'000
Revenue costs of project and programme delivery	2,493	-
Programme resource	25	-
Gross expenditure	2,518	-
Per Comprehensive Income and Expenditure	2,518	-

8. Other operating expenditure

	2017	2016
	£'000	£'000
Loss on disposal of property, plant and equipment	405	285
Capital development schemes	-	12,051
Total	**405**	**12,336**

The prior year comparative for capital development schemes expenditure consists of costs for Bromsgrove Rail Station previously included within assets under construction but now written off as the asset is owned by Network Rail and leased back to the Combined Authority via a finance lease. The effect of this is explained in note 16 Property, Plant and Equipment.

9. Financing and investment income and expenditure

	2017	2016
	£'000	£'000
Interest payable and similar charges on borrowings:		
PWLB	8,730	8,861
Other	404	403
Interest payable on the former transferred debt	562	607
Net interest on the net defined benefit liability (note 28)	2,455	2,268
	12,151	12,139
Interest receivable and similar income	(224)	(386)
Total	**11,927**	**11,753**

10. Taxation and non-specific grant income and expenditure

	2017	2016
	£'000	£'000
Transport levy from the West Midlands districts*	124,830	131,400
Gainshare contribution - DCLG	36,500	-
Business rates growth - DCLG	1,500	-
Constituent, non-constituent and observers contributions*	2,667	-
Capital grants and contributions (note 11)	68,584	71,217
Total	**234,081**	**202,617**

*An analysis of the transport levy and constituent and non-constituent member contributions by district is shown in note 34 Related Party Disclosures.

11. Government and other grant income

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement**:**

	2017	2016
	£'000	£'000
Revenue grants credited to cost of services		
Bus Service Operator Grant - DfT	1,793	1,276
Health-led Employment Trials - DWP	62	-
Local Sustainable Transport Fund - DfT	549	5,467
Midlands Connect Programme - DfT	545	5,000
Smart Ticketing	780	-
Other	60	53
Total	**3,789**	**11,796**
Analysed between the following segments:		
Transport	3,727	11,796
Combined Authority Other Services	62	-
Total	**3,789**	**11,796**

	2017	2016
	£'000	£'000
Capital grants and contributions credited to taxation and non-specific grant income		
Integrated Transport Block - DfT	23,008	21,722
Highways Maintenance Incentive Fund - DfT	913	913
Highways Capital Maintenance - DfT	14,939	15,383
Highways Maintenance Challenge Fund - DfT	13,642	12,300
Better Bus Area Fund - DfT	-	1,231
Clean Vehicle - DfT	486	-
Local Sustainability Transport Fund - DfT	201	117
ITSO Smartcard - DfT	41	208
Enterprize Zone - BCC	6,263	2,271
Local Growth Fund - BC LEP	5,615	3,820
Local Growth Fund - GBS LEP	3,111	11,874
3rd Party Contributions	108	859
Ring and Ride vehicles	215	519
Other	42	-
Total	**68,584**	**71,217**

The Combined Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balances at the year end are as follows:

	2017	2016
	£'000	£'000
Grants received in advance - capital		
Integrated Transport Block - DfT	1,657	7,082
Local Growth Fund - GBS LEP	1,044	4,525
Sundry - DfT	591	280
Highways Maintenance Challenge Fund - DfT	3,203	841
Local Sustainability Transport Fund - DfT	277	478
Enterprize Zone - BCC	-	171
3rd Party Contributions	82	73
	6,854	**13,450**
Grants received in advance- revenue		
Bus Service Operator Grant - DfT	1,226	1,227
	1,226	**1,227**

12. Officers' remuneration

The remuneration paid to senior employees during 2016/17 was as follows:

		Salary, fees and allowances	Pension contrib-utions	Total
		£'000	£'000	£'000
For the period from 17th June 2016				
Chief Executive [1]	2016/17	-	-	-
Chief Operating Officer [1]	2016/17	-	-	-
Clerk to the WMCA and Monitoring Officer [2]	2016/17	-	-	-
Investment Director [1]	2016/17	-	-	-
Director of Corporate Services [3]	2016/17 (pro-rata)	97	12	109
Managing Director, Transport for West Midlands [4]	2016/17 (pro-rata)	92	11	103
For the period to 16th June 2016				
Interim Managing Director [3]	2016/17 (pro-rata)	26	3	29
	2015/16	122	14	136
Director of Integrated Mobility [5]	2016/17 (pro-rata)	20	2	22
	2015/16	84	10	94
Strategic Director for Transport [4]	2016/17 (pro-rata)	24	3	27
	2015/16	34	4	38

[1] Chief Executive, Chief Operating Officer and Investment Director joined in June 2016 when WMCA came into existence. They did not receive any remuneration from the Combined Auhority and no amounts were re-charged from other District Authorities for their services during the period.

[2] Clerk to the WMCA and Monitoring Officer was Clerk to the ITA from 1 April to 16 June 2016. He did not receive any remuneration from the Combined Authority and no amounts were re-charged from other District Authorities for his service during the year.

[3] Director of Corporate Services was Interim Managing Director (PTE) and Treasurer (ITA) from 1 April to 16 June 2016. His full remuneration for 2015/16 is shown against the Interim Managing Director post and has not been split into the two roles held in 2015/16.

[4] Managing Director, Transport for West Midlands was Strategic Director for Transport from 1 April to 16 June 2016. The Strategic Director for Transport post was redesignated as Managing Director, Transport for West Midlands with effect from 1 August 2016.

[5] Director of Integrated Mobility post was deleted in July 2016 as part of the restructure when the Combined Authority came into existence.

Other employees receiving more than £50,000 remuneration for the year from all entities (excluding pension contributions) were paid the following amounts:

	2017	**2016**
	£'000	£'000
£50,000 - £54,999	16	9
£55,000 - £59,999	7	5
£60,000 - £64,999	5	4
£65,000 - £69,999	3	5
£70,000 - £74,999	3	3
£75,000 - £79,999	1	2
£80,000 - £84,999	1	1
£85,000 - £89,999	-	-
£90,000 - £94,999	1	-
£95,000 - £99,999	2	-
£100,000 - £134,999	-	-
£135,000 - 139,999	1	-

The numbers of exit packages with total cost per band are set out in the table below. Exit packages include pension contributions paid to the pension fund.

Cost band (including special payments)	**Compulsory redundancies**		**Total exit packages**		**Total cost of packages in each band**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	No.	No.	No.	No.	£'000	£'000
£0 - £20,000	7	3	7	3	**53**	**30**
£20,001 - £40,000	3	1	3	1	**109**	**21**
£40,001 - £60,000	3	-	3	-	**140**	**-**
£60,001 - £80,000	-	1	-	1	**-**	**80**
£80,001 - £100,000	-	-	-	-	**-**	**-**
£100,001 +	3	2	3	2	**478**	**414**
	16	**7**	**16**	**7**	**780**	**545**

13. Members' allowances

	2017	**2016**
	£'000	£'000
Allowances	128	151
Expenses	10	19
Total	**138**	**170**

14. External audit costs

Charges relating to work undertaken by the external auditors:

	2017 £'000	2016 £'000
Fees payable to Grant Thornton LLP with regard to external audit services carried out by the appointed auditor for the year	47	53
Fees payable in respect of other services provided by Grant Thornton LLP during the year	19	17
Total	**66**	**70**

15. Intangible assets

Intangible assets consist of costs incurred in the development and implementation of equipment, systems and services for introducing ITSO-compliant smartcard ticketing in the West Midlands. The costs are fully funded by capital grants.

	2017 £'000	2016 £'000
Cost		
At 31 March	**13,327**	**13,327**
Amortisation		
At 1 April	13,327	13,265
Charge for the year	-	62
At 31 March	**13,327**	**13,327**
Net book value		
At 31 March	-	-

16. Property, plant and equipment

Infrastructure assets comprise bus and railway stations, park and ride sites and the Midland Metro system including trams. Other land and buildings include the head office at Summer Lane and non-operational land acquired for the future expansion of park and ride sites and the Midland Metro.

Assets under construction largely consists of expenditure on the construction of the Midland Metro extension. Vehicles, plant and equipment include Ring and Ride vehicles with a carrying value of £1.416m (2016: £1.715m), are included in the Balance Sheet in accordance with IFRIC 4. Additions during the year for Ring and Ride were £0.216m (2016: £0.519m) are included within additions "other".

Leased assets

Additions "other" include £7.065m for assets acquired under a finance lease during the year in respect of Bromsgrove rail station and carpark being the value of the assets at the date of the lease agreement. This valuation has been prepared on a depreciated replacement cost (DRC) basis by Bruton Knowles, in accordance with the Combined Authority's accounting policy on infrastructure assets. As the lease is for a peppercorn rent, the revaluation reserve has been credited with a corresponding amount (note 26).

Revaluations

Land and buildings are revalued at least every five years at fair value and a full valuation was last carried out as at 31 March 2014. This valuation was carried out by Bruton Knowles, an accredited independent valuer in accordance with the Practice Statements in the Valuation Standards (The Red Book) published by The Royal Institution of Chartered Surveyors. Fair value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market prices adjusted for any difference in the nature, location or condition of the asset.

Between valuations, a desktop review is carried out by independent valuers for indications of material changes to values and adjustments are made to the carrying value of assets as appropriate. The desktop review at 31 March 2017 carried out by Bruton Knowles confirmed that there were no adjustments to be made.

Movements in 2016/17	**Land and buildings**	**Vehicles, plant and equipment**	**Infra-structure assets**	**Assets under construction**	**Total**
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2016	3,576	38,697	306,277	44,100	392,650
Additions - capital programme	-	1,179	395	21,577	23,151
Additions - other	-	2,321	4,960	-	7,281
Transfers	-	508	31,822	(32,330)	-
Transfers to provision of services	-	-	-	(612)	(612)
Disposals	-	(976)	(3,098)	-	(4,074)
At 31 March 2017	**3,576**	**41,729**	**340,356**	**32,735**	**418,396**
Accumulated depreciation					
At 1 April 2016	195	25,740	120,820	-	146,755
Charge for the year	98	2,585	12,825	-	15,508
Disposals	-	(971)	(2,698)	-	(3,669)
At 31 March 2017	**293**	**27,354**	**130,947**	**-**	**158,594**
Net book value					
At 31 March 2017	3,283	14,375	209,409	32,735	259,802
At 31 March 2016	3,381	12,957	185,457	44,100	245,895

Comparative movements in 2015/16	**Land and buildings** £'000	**Vehicles, plant and equipment** £'000	**Infra-structure assets** £'000	**Assets under construction** £'000	**Total** £'000
Cost or valuation					
At 1 April 2015	3,906	36,373	281,640	62,602	384,521
Additions - capital programme	-	1,081	2,521	37,397	40,999
Additions - other	-	519	-	-	519
Transfers	-	724	42,933	(43,657)	-
Transfers to provision of services	-	-	-	(191)	(191)
Disposals	(330)	-	(20,817)	(12,051)	(33,198)
At 31 March 2016	**3,576**	**38,697**	**306,277**	**44,100**	**392,650**
Accumulated depreciation					
At 1 April 2015	97	23,059	129,876	-	153,032
Charge for the year	98	2,681	11,750	-	14,529
Disposals	-	-	(20,806)	-	(20,806)
At 31 March 2016	**195**	**25,740**	**120,820**	**-**	**146,755**
Net book value					
At 31 March 2016	3,381	12,957	185,457	44,100	245,895
At 31 March 2015	3,809	13,314	151,764	62,602	231,489

17. Investments

	Long-term		**Current**		**Total**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	£'000	£'000	£'000	£'000	£'000	£'000
Investments in subsidiaries	-	-	-	-	-	-
Long-term deposits	22,000	-	-	-	22,000	-
Total	22,000	-	-	-	22,000	-

The Combined Authority has interests in the following subsidiaries which were incorporated in England. The investments were held at 31 March 2016 and 31 March 2017.

	Ownership	**Share capital**	**Nature of business**
Centro Properties Ltd	100%	£100	Non - trading
Midland Metro Limited	100%	£100	Non - trading
Network West Midlands Limited	100%	£100	Non - trading
West Midlands Rail Limited	50%	n/a - limited by guarantee	Non - trading

Centro Properties Ltd was incorporated under the Companies Act 2006 as a private limited company on 01 December 2009.

Midland Metro Ltd was incorporated under the Companies Act 1985 as a private limited company on 16 March 1988.

Network West Midlands Ltd was incorporated under the Companies Act 1985 as a private limited company on 31 July 2000.

West Midlands Rail Ltd was incorporated under the Companies Act 2006 as a private limited company (limited by guarantee) on 10 April 2014.

18. Short-term debtors

	2017	2016
	£'000	£'000
Trade debtors and accrued income	13,670	12,362
Other debtors	1,321	2,101
Prepayments	10,643	11,340
Total	**25,634**	**25,803**
Analysed between the following classes of debtors		
Central government bodies	1,329	4,831
Other local authorities	6,367	5,822
Other entities and individuals	17,938	15,150
Total	**25,634**	**25,803**

Included within trade debtors and accrued income are monies owed in respect of grant funding claims and also monies owed to operators for ticketing. Prepayments consist of prepayments for concessions to operators, lease payments for Metro and capital prepayments for Bromsgrove Rail Station and Metro Centenary Square. Other debtors consist of amounts recoverable for VAT.

19. Cash and cash equivalents

	Carrying amount	
	2017	2016
	£'000	£'000
Cash at bank and in hand	103	1,197
Short-term deposits	28,200	28,150
Altram refundable deposit	2,750	2,750
	31,053	**32,097**
Amount to be repaid to Altram	(2,750)	(2,750)
Total	**28,303**	**29,347**

Daily cash balances are invested overnight. The balance at 31 March 2017 represents monies held on deposit as at 31 March 2017 to be repaid on the next available banking day. Interest is earned at the respective short-term deposit rates.

The Combined Authority holds £2.750m (2016: £2.750m) on behalf of Altram, its private sector partner in the Midland Metro Project, as a deposit against unforeseen circumstances. This sum is invested with the Debt Management Account Facility (DMADF) with any interest received repaid to Altram.

20. Borrowing

	2017	2016
	£'000	£'000
Lender		
Public Works Loan Board (PWLB)	147,719	153,010
Barclays - LOBO	10,000	10,000
Accrued interest payable	2,360	2,490
Total	**160,079**	**165,500**
Maturity		
Principle and accrued interest due within one year	7,663	7,781
1 - 2 years	23,317	5,303
2 - 5 years	11,021	33,985
5 - 10 years	1,991	1,915
Over 10 years	116,087	116,516
Principle due after more than one year	152,416	157,719
Total	**160,079**	**165,500**

The Combined Authority adopts a low risk treasury management approach seeking to maximise low interest loans when the opportunity arises. During the year, the Combined Authority did not undertake any short-term borrowing (2016: nil). The amount of fixed rate debt is 100% (2016: 100%) with no variable rate debt (2016: nil).

In November 2012 the PWLB introduced the certainty new loan rate (CNLR), allowing authorities to borrow at a reduction of 20 base points (bps) on the standard PWLB rate. The former West Midlands Integrated Transport Authority (ITA) applied for the certainty rate and was acknowledged by PWLB as being on their approved list of authorities who could access the preferential rates.

During 2005/06 the ITA entered into a £10.0m LOBO (“Lenders Option Borrowers Option”) loan with Barclays Bank Plc at 4.03% repayable in 2055/56. In June 2016, Barclays decided to waive its right permanently under the lenders option of the LOBO feature to change interest rates in the future. No other terms or conditions of the loan were amended and the loan will still mature in June 2055.

21. Finance lease liabilities

In 1998 the former West Midlands Passenger Transport Executive entered into two finance leases with Royal Bank Leasing in connection with the trams for Metro line 1. The initial cost of all 15 vehicles was £20.747m. The leases are repayable by equal instalments over 20 years based on LIBOR interest rates and are due to terminate in 2018/19. Any monetary fluctuations due to interest rate changes are settled on an annual basis.

These vehicles are no longer operational and have been written off as they have been replaced by new trams. Finance lease liabilities are repayable as follows:

	Minimum lease payments		Finance lease liabilities	
	2017	**2016**	**2017**	**2016**
	£'000	£'000	£'000	£'000
Within 1 year	1,732	1,712	1,684	1,647
Within 2 - 5 years	1,032	2,766	991	2,677
	2,764	4,478	2,675	4,324
Finance costs payable in future years	(89)	(154)	-	-
Total	**2,675**	**4,324**	**2,675**	**4,324**

22. Short-term creditors

	2017	**2016**
	£'000	£'000
Trade creditors and accruals	42,037	33,665
Taxes and social security	392	352
Payments received on account	4,657	2,826
	47,086	**36,843**
Analysed between the following classes of creditors		
Central government bodies	941	559
Other local authorities	13,528	11,258
Other entities and individuals	32,617	25,026
Total	**47,086**	**36,843**

Included within trade creditors and accruals are accruals for capital expenditure relating to various projects, amounts due to operators for concessions, subsidised services and ticketing, and sundry accruals for other goods and services. Payments received on account include ticketing income received but not yet paid to operators and advertising income billed in advance.

23. Provisions

Current year movements	**Transport development**	**Buildings maintenance**	**Rail services/ insurance**	**Total**
	£'000	£'000	£'000	£'000
Balance at 1 April 2016	4,911	1,272	1,114	7,297
Additional provision	1,429	135	181	1,745
Amounts used	(2,138)	(96)	(5)	(2,239)
Balance at 31 March 2017	**4,202**	**1,311**	**1,290**	**6,803**
Current	4,202	311	1,290	5,803
Long-term	-	1,000	-	1,000
Total	**4,202**	**1,311**	**1,290**	**6,803**

Prior year comparatives	**Transport development**	**Buildings maintenance**	**Rail services/ insurance**	**Total**
	£'000	£'000	£'000	£'000
Balance at 1 April 2015	4,015	1,330	962	6,307
Additional provision	1,840	85	216	2,141
Amounts used	(944)	(143)	(64)	(1,151)
Balance at 31 March 2016	**4,911**	**1,272**	**1,114**	**7,297**
Current	4,911	272	1,114	6,297
Long-term	-	1,000	-	1,000
Total	**4,911**	**1,272**	**1,114**	**7,297**

Transport developments
This has been provided to meet the Combined Authority's commitments to the West Midlands regions' transport developments.

Building maintenance
This has been provided to meet contractual obligations in respect of the Combined Authority's properties.

Rail services/insurance
This has been provided in order to meet anticipated future liabilities and risks in relation to local rail services and the net expected costs of claims outstanding, and their administration, relating to the activities of the former West Midlands Passenger Transport Executive as a bus operator prior to 26 October 1986**.**

24. Transferred debt

This consists of loans inherited from the former West Midlands County Council which are managed by Dudley MBC on behalf of all the West Midlands authorities. When the County Council was disbanded, the loans were nominally distributed amongst the various local government authorities in the West Midlands with the former West Midlands Integrated Transport Authority's share of the loan set at 5.495%. The loan is repayable in annual instalments on an annuity basis with the last instalment due in 2025/26.

	2017	**2016**
	£'000	£'000
Balance at 1 April	9,068	9,585
Repayment in the year	(569)	(517)
Balance at 31 March	**8,499**	**9,068**
Due within one year	626	569
Due over one year	7,873	8,499
Total	**8,499**	**9,068**

25. Usable reserves

The purpose of the individual reserves are as follows:

General Fund Balance
The General Fund Balance is a statutory fund which represents funds available to the Combined Authority to meet unexpected short term requirements. Movements in the General Fund are detailed in the Movement in Reserves Statement.

Earmarked Reserves

Current year movements	**Earmarked general fund**	**Gainshare contribution**	**Unapplied revenue grants**	**Total**
	£'000	£'000	£'000	£'000
Balance at 1 April 2016	9,093	-	9,291	18,384
Received in year	171	36,500	1,934	38,605
Utilised in year	-	(892)	(7,761)	(8,653)
Net unapplied in year	171	35,608	(5,827)	29,952
Released in year to general reserves	(816)	-	-	(816)
Transfers in year from general reserves	519	-	-	519
Net transfer (to)/from general reserves	(297)	-	-	(297)
Balance at 31 March 2017	**8,967**	**35,608**	**3,464**	**48,039**

Prior year comparatives	**Earmarked general fund**	**Gainshare contribution**	**Unapplied revenue grants**	**Total**
	£'000	£'000	£'000	£'000
Balance at 1 April 2015	**4,951**	**-**	**5,547**	**10,498**
Received in year	1,516	-	10,520	12,036
Utilised in year	(234)	-	(6,631)	(6,865)
Net unapplied in year	1,282	-	3,889	5,171
Released in year to general reserves	(945)	-	(145)	(1,090)
Transfers in year from general reserves	3,805	-	-	3,805
Net transfer from general reserves	2,860	-	(145)	2,715
Balance at 31 March 2016	**9,093**	**-**	**9,291**	**18,384**

Earmarked general fund
This reserve contain additions in the year to provide funding to back transport capital programme commitments.

Gainshare contribution
This reserve contains the Gainshare contribution received from the DCLG where the expenditure has not been incurred at the Balance Sheet date. The funding will be transferred to the General Fund via the Movements in Reserves Statement as the expenditure is incurred.

Unapplied revenue grants
This reserve contains revenue grants that the Combined Authority has received from the DfT in respect of the Local Sustainable Transport Fund and the Midlands Connect Programme where the expenditure has not been incurred at the Balance Sheet date. These grants are transferred to the General Fund via the Movements in Reserves Statement as the expenditure is incurred.

Capital Receipts Unapplied Reserve
The Capital Receipts Unapplied Reserve contains the capital grants and receipts that the Combined Authority has received where the expenditure has not been incurred at the Balance Sheet date. These grants will be transferred to the Deferred Capital Grants account via the Movements in Reserves Statement once the expenditure has been incurred.

	2017	2016
	£'000	£'000
Opening balance at 1 April	247	191
Capital grants applied to financing	-	(191)
Transfer of sales proceeds credited as part of the loss on disposal	-	247
Closing balance at 31 March	**247**	**247**

26. Unusable reserves

The purpose of the individual reserves are as follows:

Revaluation Reserve
The Revaluation Reserve contains the gains made from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

	2017	2016
	£'000	£'000
Opening balance at 1 April	7,377	7,589
Difference between fair value depreciation and historical cost	(213)	(212)
Surplus on revaluation of property, plant and equipment (note 16)	7,065	-
Transfer to capital adjustment account	(7,065)	-
Closing balance at 31 March	**7,164**	**7,377**

The surplus for the year is in respect of assets acquired under a finance lease for Bromsgrove railway station and carpark at a peppercorn rent (note 16). A transfer has been made from the Revaluation Reserve to the Capital Adjustment Account to offset against the expenditure incurred in the previous year relating to the project which was written off to other operating expenditure (note 8) and subsequently transferred to the Capital Adjustment Account.

Capital Adjustment Account
The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The account is credited with capital grants and contributions receivable and amounts set as finance for the costs of acquisition, construction and subsequent costs (MRP).

	2017	2016
	£'000	£'000
Opening balance at 1 April	41,106	42,728
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and amortisation of non-current assets	(15,508)	(14,589)
Adjusting amount written out of the revaluation reserve	213	212
Loss on disposal of property, plant and equipment	(1,017)	(12,336)
Transfer of sales proceeds credited as part of the loss on disposal	-	(247)
Revenue expenditure funded from capital under statute (note 27)	(14,741)	(9,223)
Capital financing applied in the year		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	22,654	26,006
Application of grants to capital financing from the Capital Grants Unapplied Reserve	-	191
Application of Earmarked Reserves to finance capital expenditure	-	234
Statutory provision for the financing of capital investment charged against the General Fund (MRP - note 27)	4,590	7,156
Debt repayment charged against the General Fund (note 24)	569	517
Capital expenditure charged against the General Fund (note 27)	322	457
Transfer from revaluation reserve	7,065	-
Closing balance at 31 March	**45,253**	**41,106**

Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The debit balance on the reserve shows the shortfall in the benefits earned by past and current employees and the resources the Combined Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2017	2016
	£'000	£'000
Opening balance at 1 April	96,929	80,314
Remeasurements (liabilities and assets)	(37,980)	19,823
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement	6,175	4,862
Employer's pension contributions payable in the year:		
Current year	(7,958)	(8,070)
Closing balance at 31 March	**57,166**	**96,929**

27. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year, together with the resources that have been used to finance it are shown in the tables below.

	2017 £'000	2016 £'000
Bus infrastructure	2,651	3,843
Rail infrastructure	1,849	7,018
Midland Metro	28,117	36,515
Sustainability	4,552	2,054
Other	723	792
Total capital expenditure	**37,892**	**50,222**
Property, plant and equipment (note 16)	23,150	40,999
Written off to cost of services - capital development/district schemes	14,741	9,223
	37,891	**50,222**
Funded by:		
Central Government grants	11,755	8,179
District/Local Enterprise Partnership (LEP) grants and contributions	4,575	16,449
3rd party contributions	6,109	859
Use of reserves	-	425
Borrowing	15,454	24,310
	37,893	**50,222**

The Combined Authority has a statutory obligation to make adequate provision to meet its liabilities in respect of capital expenditure financed by external borrowing through a revenue charge (the minimum revenue provision or MRP). The method of calculating the provision is defined by statute and is based on the Combined Authority's underlying capital financing requirement (CFR), a measure of the capital expenditure incurred historically by the Combined Authority that has yet to be financed. The CFR is analysed below:

	2017 £'000	2016 £'000
Opening capital financing requirement	197,412	181,232
Capital investment		
Capital programme costs funded by borrowing	15,454	24,310
Sources of finance		
Minimum revenue provision (MRP)	(4,590)	(7,156)
Deferred liability repayment (note 23)	(569)	(517)
Capital expenditure charged to the general fund	(322)	(457)
Closing capital financing requirement	**207,385**	**197,412**
Explanation of movement in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	9,973	16,180
Increase in capital financing requirement	**9,973**	**16,180**

28. Defined benefit pension scheme

Employees of the Combined Authority participate in the West Midlands Pension Fund, a defined benefit career average salary statutory scheme administered by the City of Wolverhampton Council in accordance with the Local Government Pension Scheme Regulations 2013.

An actuarial valuation of this fund was carried out by Barnett Waddingham LLP, an independent firm of actuaries in accordance with the Regulations as at 31 March 2016. Based on the results of this valuation the actuaries advise that the cost of pensions to be charged to the Comprehensive Income and Expenditure Statement from 1 April 2016 should be 13.1% of the current employees' pensionable pay plus £0.8m per annum to meet 100% of the overall fund liabilities. This pension cost has been determined after allowing for the amortisation of the difference between the assets and the accrued liabilities relating to the Combined Authority over the average remaining service lives of the current members of the fund.

Calculation method

The figures as at 31 March 2017 are based on the 31 March 2016 formal valuation of the fund. Membership data as at 31 March 2016 was used to develop current funding requirements. Liabilities are based on benefit payment and contribution information provided by the fund's administrator as at 31 March 2016. This valuation was carried out by Barnett Waddingham LLP.

Net liability and pension reserve

The net amount recognised on the Balance Sheet at 31 March 2017 is a deficit of £57.166m compared to a deficit of £90.629m at 31 March 2016. The main driver of the decrease is the result of the change in valuation assumptions following the 2016 triennial valuation.

Movement in pension fund liability during the year

	2017 £'000	**2016** £'000
Opening balance at 1 April	90,629	80,314
Employer's pension contributions payable in the year		
Current year	(7,958)	(8,070)
Prepayment for 2016/17	6,300	(6,300)
Post employment benefit charged to the surplus or deficit on provision of		
Current service cost	3,610	2,497
Administration expenses	110	97
Net interest cost	2,455	2,268
Remeasurements (liabilities and assets)	(37,980)	19,823
Closing balance at 31 March	**57,166**	**90,629**

Employer's pension contributions expected to be paid in 2017/18 are estimated at £4.183m. This includes a pension deficit lump sum prepayment of £2.4m (£0.8m per annum) covering three years to 2019/20.

Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the levy is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2017 £'000	2016 £'000
Comprehensive Income and Expenditure Statement		
Cost of services		
Current service cost	3,610	2,497
Administration expenses	110	97
Financing and investment income and expenditure		
Net interest cost	2,455	2,268
Total post employment benefit charged to the surplus or deficit on provision of services	**6,175**	**4,862**
Remeasurements (liabilities and assets)	(37,980)	19,823
Total post employment benefit charged/(credited) to the Comprehensive Income and Expenditure Statement	**(31,805)**	**24,685**
Movement in reserves statement		
Reversal of net charges made to the surplus or deficit on provision of services for post employment benefits in accordance with the Code	(6,175)	(4,862)
Actual amount charged against the General Fund Balance for pensions in the year	7,958	8,070
	1,783	**3,208**

Assets and liabilities in relation to post-employment benefits

	2017 £'000	2016 £'000
Present value of scheme liabilities	(318,749)	(316,284)
Present value of scheme assets	261,583	225,655
Amounts recognised as liabilities	**(57,166)**	**(90,629)**

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	2017 £'000	2016 £'000
Opening balance at 1 April	316,284	306,754
Current service costs	3,425	2,497
Interest cost	7,650	9,289
Change in demographic assumptions	(9,272)	-
Experience loss/(gain) on defined benefit obligation	(14,997)	-
Contributions by scheme participants	882	818
Remeasurements (liabilities)	28,991	12,058
Benefits paid	(14,399)	(15,132)
Past service costs/curtailments	185	-
Closing balance at 31 March	**318,749**	**316,284**

Reconciliation of fair value of the scheme assets

	2017 £'000	2016 £'000
Opening balance at 1 April	225,655	226,440
Interest on plan assets	5,195	7,021
Administration expenses	(110)	(97)
Remeasurements (assets)	32,795	(7,765)
Other actuarial gains/(losses)	9,907	-
Employer contributions paid - current year	1,658	8,070
Employer contributions paid - prepayment for 2016/17	-	6,300
Contributions by scheme participants	882	818
Benefits paid	(14,399)	(15,132)
Closing balance at 31 March	**261,583**	**225,655**

The plan assets at the year end were as follows:

	2017 %	2017 £'000	2016 %	2016 £'000
Asset				
Equities	64	168,485	60	136,572
Gilts	8	21,232	8	17,583
Other bonds	4	10,839	5	10,508
Property	8	20,151	8	18,609
Cash/liquidity	3	7,466	5	10,307
Other	13	33,410	14	32,076
Total	**100**	**261,583**	**100**	**225,655**

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The expected rate of return on plan assets is based on market expectations, at the beginning of the period, for investments returns over the entire life of the related obligation.

	2017	2016
Valuation assumptions		
Discount rate	2.4%	2.7%
Rate of salary increase	4.0%	3.8%
Rate of pension	2.5%	2.0%
Inflation assumption	2.5%	2.0%
Future life expectancies from age 65		
Retiring today:		
Males	21.8	23.0
Females	24.2	25.7
Retiring in 20 years:		
Males	23.9	25.3
Females	26.5	28.0

It is assumed that 50% of retiring members will take the maximum tax-free lump sum available and 50% will take the standard 3/80ths cash sum.

Five year history	**2013**	**2014**	**2015**	**2016**	**2017**
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities	(317,471)	(284,687)	(306,754)	(316,284)	(318,749)
Fair value of assets in the pension scheme	208,581	202,762	226,440	225,655	261,583
Deficit/(surplus) in the scheme	(108,890)	(81,925)	(80,314)	(90,629)	(57,166)
Difference between the expected and actual return on scheme assets	13,622	(7,523)	22,069	(7,765)	32,795
Percentage of scheme assets	6.5%	-3.7%	9.7%	-3.4%	12.5%
Experience gains and (losses) on scheme liabilities	-	4,315	(22,941)	(12,058)	(28,991)
Percentage of scheme liabilities		1.5%	-7.5%	-3.8%	-9.1%
Changes in actuarial assumptions	(27,574)	29,430	-	-	9,272
Percentage of scheme liabilities	-8.7%	10.3%	0.0%	0.0%	2.9%
Net actuarial gain/(loss) recognised	(13,952)	26,222	(872)	(19,823)	13,076
Percentage of scheme liabilities	-4.4%	9.2%	-0.3%	-6.3%	4.1%
Cumulative actuarial loss recognised	(99,428)	(73,206)	(74,078)	(93,901)	(80,825)

29. Financial risk management

The Combined Authority's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to fund the Combined Authority's operations. The Combined Authority has trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Combined Authority does not enter into any derivative transactions.

The Combined Authority is exposed to credit risk, liquidity risk and market risk. Currency risk is not a significant factor for the Combined Authority since it ensures that substantially all financial assets and liabilities are contracted for in Sterling.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Combined Authority is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks, other financial institutions and local authorities.

The Combined Authority manages the credit risk from its financing activities by restricting its exposure with financial institutions to those that are on the official lending list as compiled by the Combined Authority's treasury management advisors. The criteria for these lending lists are set out in the Treasury Management Strategy report and credit ratings monitored constantly through the receipt of credit rating bulletins from its treasury management advisors. If a financial institution fails to meet the criteria they are removed from the official lending list. The lending list contains financial as well as duration limits to reduce risk. Minimal balances are held for daily cashflow management and any surplus funds are invested on the overnight money market with HSBC Bank PLC.

Customer credit risk: customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Combined Authority.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017 £'000	2016 £'000
Trade debtors and accrued income	13,670	12,362
Cash and short-term deposits	31,053	32,097
Total	**44,723**	**44,459**

Liquidity risk

Liquidity risk covers the ease of access to finance. The Combined Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Combined Authority maintains a sufficient level of liquidity through the use of Money Market Funds/overnight deposits and call accounts. If longer term funding is required, the Combined Authority has ready access to borrowings from the money markets and the Public Works Loans Board (PWLB). There is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the Combined Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates, but effective cash management ensures any borrowing is undertaken at favourable rates.

Market risk

The Combined Authority is exposed to the risk of interest rate movements on its borrowings and investments. It manages those risks as follows:

- New long-term borrowings are only undertaken if required to meet cash flow requirements.
- Debt restructuring is undertaken when financially viable to take account of fluctuating interest rates.
- Limits are set on the proportion of its borrowing limits in accordance with the Treasury Management Strategy.

EU Referendum

Following the triggering of Article 50 on 29 March 2017, Combined Authority continues to closely assess and manage the direct effects of the UK leaving the European Union, in relation to market reaction (i.e. returns on investments), financial stability of counter parties, likelihood of future funding opportunities and options for raising finance. Combined Authority are assisted in this regard by professional Treasury Management advisors, Arlingclose Limited.

Maturity analysis of financial liabilities:

All trade and other payables are due to be paid in less than one year. The maturity profile of finance lease liabilities is shown in note 21.

30. Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet at amortised cost. Short-term debtors consist of trade debtors and accrued income, short-term creditors consist of trade creditors and accruals.

	Long-term		Current		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets - loans and receivables						
Investments	22,000	-	-	-	22,000	-
Short-term debtors	-	-	13,670	12,362	13,670	12,362
Cash and cash equivalents	-	-	31,053	32,097	31,053	32,097
Total financial assets	**22,000**	**-**	**44,723**	**44,459**	**66,723**	**44,459**
Financial liabilities at amortised cost						
Borrowings	152,416	157,719	7,663	7,781	160,079	165,500
Finance lease liabilities	991	2,677	1,684	1,647	2,675	4,324
Short-term creditors	-	-	42,037	33,665	42,037	33,665
Deferred liability	7,873	8,499	626	569	8,499	9,068
Total financial liabilities	**161,280**	**168,895**	**52,010**	**43,662**	**213,290**	**212,557**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

			2016-17			**2015-16**
	Financial assets: loans and receivables	**Financial liabilities at amortised cost**	**Total**	**Financial assets: loans and receivables**	**Financial liabilities at amortised cost**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
Interest income (note 9)	(224)	-	(224)	(386)	-	(386)
Interest expense (note 9)	-	12,151	12,151	-	12,139	12,139
Net loss/(gain) for the year in the	**(224)**	**12,151**	**11,927**	**(386)**	**12,139**	**11,753**

Fair value of financial assets and liabilities

The table below compares the carrying value of financial assets and liabilities to their fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

	31 March 2017		31 March 2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£'000	£'000	£'000	£'000
Financial assets - loans and receivables				
Investments	22,000	22,000	-	-
Short-term debtors	13,670	13,670	12,362	12,362
Cash and cash equivalents	31,053	31,053	32,097	32,097
Total financial assets	**66,723**	**66,723**	**44,459**	**44,459**
Financial liabilities at amortised cost				
Public Works Loan Board (PWLB)	149,971	221,188	155,391	208,246
Barclays - LOBO	10,108	14,896	10,109	14,550
Total borrowings	**160,079**	**236,084**	**165,500**	**222,796**
Finance lease liabilities	2,675	2,675	4,324	4,324
Short-term creditors	42,037	42,037	33,665	33,665
Transferred debt	8,499	10,473	9,068	10,961
Total financial liabilities	**213,290**	**291,269**	**212,557**	**271,746**

Short-term debtors and creditors, cash and cash equivalents and finance lease liabilities approximate to their carrying amounts largely due to the short-term nature of these instruments.

Barclays – LOBO: the valuation method used is to discount contractual (or expected) cash flows at the market rate for local authority loans of the same remaining term and add the value of the lenders option from a market option pricing model.

PWLB: the valuation model considers the present value of the cashflows expected over the remaining life of each loan discounted using lending rates for new loans based on PWLB rates at the measurement date. The fair value is adjusted to reflect the premium or discount charged for early repayment.

The fair valuation methodology for borrowings are at level 2 – significant observable inputs. There have been no changes in valuation methodology during the year.

31. Operating leases

Leases as lessee

Land and buildings - land is acquired for park and ride sites and bus stations by entering into operating leases. Some of these leases are non-cancellable with typical lives of 25 years.

Supported bus services - the Combined Authority has determined that the tendered service contracts of four (2016: four) bus operators take the form of operating leases under IFRIC 4.

The future minimum lease payments payable under non-cancellable operating leases at 31 March 2017 are as follows:

	2017	2016
	£'000	£'000
Land and buildings		
Less than one year	237	232
Between two and five years	676	701
More than five years	3,115	3,266
	4,028	**4,199**
Supported bus services		
Total contract spend:		
Less than one year	735	157
Between two and five years	659	94
	1,394	**251**

Leases as lessor

The Combined Authority leases out parts of the Head Office at Summer Lane, various units at bus stations and land and buildings acquired for the future expansion of park and ride sites whilst they are awaiting development. These are a mixture of cancellable and non-cancellable operating leases.

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2017 are as follows:

	2017	2016
	£'000	£'000
Land and buildings		
Less than one year	198	214
Between two and five years	564	389
More than five years	2,024	2,007
	2,786	**2,610**

32. Capital commitments

The Combined Authority has major committed capital contracts amounting to £11.261m (2016: £14.591m) reflecting outstanding contracts in relation to the Metro extension.

33. Contingent liabilities and guarantees

The West Midlands Integrated Transport Authority Pension Fund is guaranteed by National Express PLC. In the event of the pension fund becoming insolvent and National Express PLC not meeting their guarantee, then the Combined Authority would be liable to meet any excess liabilities.

The pension fund was established by Government Regulation on 29th November 1991 and became active on 4th December 1991. The date of the last triennial actuarial valuation was 31 March 2016, the actuarial value was £569m. The valuation resulted in a deficit of £105m against the market value of £464m. As at 31 March 2017 the market value of the pension fund was £502m (2016: £461m).

The Combined Authority has guarantees with local authorities lodged with the bank in connection with works being undertaken at various car parks as follows:

	£'000
Sandwell MBC (4 guarantees)	147
Birmingham City Council (1 guarantee)	97

34. Related party disclosures

The Combined Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Combined Authority or to be controlled or influenced by the Combined Authority. Disclosure of these transactions allows readers to assess the extent to which the Combined Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Combined Authority. These include:

Central Government
Central Government has significant influence over the general operations of the Combined Authority. It is responsible for providing the statutory framework within which the Combined Authority operates and provides funding in the form of grants. Grants received from Government Departments are set out in note 11 together with grant receipts not yet recognised due to conditions attached to them at 31 March 2017.

Members
Members of the Combined Authority have direct control over the Combined Authority's financial and operating policies. The total of members allowances paid in 2016-17 is shown in note 13. All members have at least two roles under the Local Government Act 1985 in that they are members of one of the seven constituent levying District Councils and are appointed to the Combined Authority or co-opted to one of its committees.

During the year there were income transactions of £113k and expenditure of £105k with companies in which three members had an interest.

Officers
During the year there were income transactions of £45k and expenditure of £31k with companies in which two officers had an interest.

Other Public Bodies (subject to common control by central government)

The Combined Authority received the following levy payments and funding from the constituent District Councils:

	Transport Levy		Contributions		LGF LEP funding	
	2016/17	**2015/16**	**2016/17**	**2015/16**	**2016/17**	**2015/16**
	£'000	£'000	£'000	£'000	£'000	£'000
Constituent authorities						
Birmingham City Council	48,955	51,563	405	-	-	19,175
City of Wolverhampton Council	11,245	11,878	305	-	-	-
Coventry City Council	14,999	15,569	305	-	-	-
Dudley MBC	14,037	14,842	305	-	-	-
Sandwell MBC	14,078	14,837	305	-	-	-
Solihull MBC	9,330	9,861	305	-	-	-
Walsall Council	12,186	12,850	305	-	4,814	2,823
Non-constituent authorities						
Cannock Chase District Council	-	-	25	-	-	-
Nuneaton and Bedworth Borough Council	-	-	25	-	-	-
Redditch Borough Council	-	-	25	-	-	-
Tamworth Borough Council	-	-	25	-	-	-
Telford and Wrekin Council	-	-	25	-	-	-
Total	**124,830**	**131,400**	**2,360**	**-**	**4,814**	**21,998**

Contributions for 2017/18 of £1.636m were also received during the year.

Funding paid by the Combined Authority to the District Councils:

	Devolved Transport Funding		Economic Regeneration	
	2016/17	**2015/16**	**2016/17**	**2015/16**
	£'000	£'000	£'000	£'000
Constituent authorities				
Birmingham City Council	7,687	5,224	108	-
City of Wolverhampton Council	6,509	4,375	-	-
Coventry City Council	5,747	6,587	-	-
Dudley MBC	7,400	8,823	-	-
Sandwell MBC	7,747	7,195	-	-
Solihull MBC	7,595	7,220	1,257	-
Walsall MBC	5,620	6,386	-	-
Total	**48,305**	**45,810**	**1,365**	**-**

35. Events after the Balance Sheet date

The Statement of Accounts were authorised for issue by the West Midlands Combined Authority Board on DDMMYYYY. There have been no adjustments to the financial statements after the Balance Sheet date.

36. Merger accounting

The West Midlands Combined Authority came into existence on 17 June 2016 by virtue of the West Midlands Combined Authority Order 653/2016 (the Order). At the same time the West Midlands Integrated Transport (ITA) and the West Midlands Passenger Transport Executive (PTE) ceased to exist and all of their functions, property, rights or liabilities transferred to the Combined Authority under the provisions of the Order.

The transfer to the Combined Authority has been accounted as a “Transfer by Merger” under the Code.

The carrying amount of the net liabilities transferred at the merger date was £43.770m. This compares to a carrying amount of £27.293m at 31 March 2016. The majority of the increase in net liabilities is due to the actuarial remeasurement of the net defined pension benefit liability under IAS 19 of £16.1m.

An analysis of the principle components of the Surplus or Deficit on the Provision of Services and of Other Income and Expenditure pre- and post-merger is as follows:

	Pre merger			**Post merger**			**Total**
	Gross Expenditure	**Gross Income**	**Net Expenditure**	**Gross Expenditure**	**Gross Income**	**Net Expenditure**	**Net Expenditure**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transport services	60,811	(3,274)	57,537	173,392	(41,470)	131,922	189,459
Combined Authority other services	-	-	-	2,235	(62)	2,173	2,173
Economic development	-	-	-	2,518	-	2,518	2,518
Cost of services	**60,811**	**(3,274)**	**57,537**	**178,145**	**(41,532)**	**136,613**	**194,150**
Other operating expenditure	242	-	242	163	-	163	405
Financing and investment income and expenditure	3,664	(19)	3,645	8,487	(205)	8,282	11,927
Taxation and non-specific grant income and expenditure	-	(61,979)	(61,979)	-	(172,102)	(172,102)	(234,081)
(Surplus) or deficit on provision of services	**64,717**	**(65,272)**	**(555)**	**186,795**	**(213,839)**	**(27,044)**	**(27,599)**
(Surplus) or deficit on revaluation of property, plant and equipment			**-**			**(7,065)**	**(7,065)**
Remeasurement of the net defined benefit liability			16,138			(54,118)	(37,980)
Other comprehensive income and expenditure			**16,138**			(61,183)	(45,045)
Total comprehensive income and expenditure			**15,583**			**(88,227)**	**(72,644)**
Adjustments between accounting and funding basis			476			28,128	28,604
Transfer to pension reserve			(16,138)			54,118	37,980
Transfer to Capital Adjustment Account			-			7,065	7,065
Transfers to/from earmarked reserves			(40)			(257)	(297)
Net expenditure chargeable to the General Fund			**(119)**			**827**	**708**
Opening Genaral Fund Balance			(2,522)			(2,641)	(2,522)
Closing General Fund Balance			**(2,641)**			**(1,814)**	**(1,814)**