# Statement of Accounts

## For the year ended 31 March 2020

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# Contents


Review of Operations and Statutory Reports

Narrative Report 2

Statement of Responsibilities 21

Annual Governance Statement 23

Independent Auditor's Report 31

Financial Statements

Comprehensive Income and Expenditure Statement 36

Movement in Reserves 38

Balance Sheet 40

Cashflow Statement 41

Notes to the Accounts 42

Glossary 93

Welcome to the West Midlands Combined Authority's Statement of Accounts for the financial year ended 31 March 2020. These accounts provide the reader with a view of West Midlands Combined Authority's financial performance and its effectiveness in its use of resources during the year and are therefore a key element in demonstrating sound financial stewardship of taxpayers' money as well as ensuring that key stakeholders understand the financial position of the West Midlands Combined Authority ('the Authority)'.

The Statement of Accounts for the year ended 31 March 2020 has been prepared in accordance with the requirements of the Accounts and Audit Regulations 2015. The format reflects the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards.

The Authority operates through several undertakings, either exercising full control of an entity (subsidiary undertakings) or in partnership with other organisations (associate undertakings). To provide a complete representation of the activities of the Authority, Group Accounts are also prepared to include the subsidiaries of Midland Metro Limited and WM5G Limited, where the interest and the level of activity is considered material to the group as a whole.

The Narrative Report has been prepared to provide an outline of the activities for the year 2019/20, providing both a guide to the Authority's accounts and to its achievements in delivering inclusive economic growth through transport and economic development as well as setting out the economy, efficiency and effectiveness in its use of resources in doing so.

## 1. COVID-19 impact

The COVID-19 pandemic will have a significant impact on the Authority's finances and the way it provides its services particularly in 2020/21. The financial impact in 2019/20 was quite limited as the impact of COVID-19 was reflected only towards the end of the financial year as people began to work from home or were furloughed as a result of the COVID-19 crisis.

### Impact on the provision of transport services

The government continues to encourage workers to work from home if they can, and only undertake journeys if they are considered essential. Where journeys are to be made, there are recommended guidelines to follow to reduce the risk of spreading COVID-19. The Department for Transport (DfT) are recommending that if journeys are made, people should avoid using public transport where possible, and instead try to walk, cycle or drive.

Following the publication of the government's roadmap and strategy for the next phase of the COVID-19 nationwide response, the DfT published new guidance on 12 May 2020 setting out how passengers should make journeys safely. People should still work at home where they can and only undertake journeys if necessary. Where journeys are necessary, people should choose to walk, cycle or drive instead of using public transport.

### Impact on the Authority's workforce

In respect of the Authority's own workforce, the impact on staff of staying at home has had some very positive benefits. An early survey of WMCA employees reported that 55% were benefitting from working from home, where there have been challenges, they have been around ICT and where staff are juggling work with caring responsibilities. We have focussed a considerable amount of effort in regularly communicating with staff, and in making sure that they have a number of different ways to engage with the Authority, despite this some staff are struggling under the weight of 'lockdown'.

The Authority has not needed to redeploy staff to assist on the front line as most of our staff are not 'key workers' and in fact the Authority has relaxed its volunteering policy to encourage staff to volunteer with the NHS and with local councils where they have spare capacity.

Initially the Authority recorded higher than average sickness levels as staff self-isolated, but now sickness has dropped again, it is suspected that there is some under reporting linked to staff working from home. The Authority is recording sickness absence due to COVID-19 but only so that reasons for absence can be monitored; it does not count towards the sickness absence policy triggers. All non COVID-19 related sickness absence is recorded in the normal way and is counted on individuals' records.

**Impact on the Authority's supply chain**

In respect of supply chain risk, the Authority is following guidance issued by the Cabinet Office in late March 2020: 'Procurement Policy Note - Supplier relief due to COVID-19'. This Procurement Policy Note sets out information and guidance for public bodies on payment of their suppliers to ensure service continuity during and after the current coronavirus, COVID-19, outbreak. The Authority acted immediately to ensure suppliers at risk are in a position to resume normal contract delivery once the outbreak is over.

Actions taken include:

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

**Impact on reserves, financial performance and financial position**

The Authority has a general fund balance of £2.3m at the end of 2019/20, representing 1% of net revenue expenditure in the year. In addition, the Authority had balances of £26.6m in general fund earmarked reserves at the end of 2019/20 (see note 26 to the accounts on page 72). This balance includes amounts earmarked for specific risks which will remain present in the Authority's planning environment independent of the COVID-19 crisis.

Whilst there is a significant gap in funding emerging in future years in the Medium-Term Financial Plan, this is being addressed corporately by reviewing transformation opportunities and potential efficiency savings.

At the end of 2019/20, the Authority prudently created a specific COVID-19 reserve of £1.3m from savings in the year. This represents only a small proportion of the estimated financial impact of the crisis on the Authority.

The Authority has also prudently provided for anticipated credit losses at a higher level than in previous years as a result of the crisis, in relation to its exposure to repayment of loans through the Collective Investment Fund and its wholly-owned subsidiaries.

The impact of the crisis on the Authority will be most profound in terms of the loss of major income streams for a prolonged period, through reduced patronage for light rail for example, and a significant drop in other transport related income. Capital project delivery timescales may be impacted as programmes are rescheduled with a potential effect on the realisation of the project benefits for the West Midlands region.

This impact is more significant on the Authority's subsidiaries, especially Midland Metro Limited, where passenger revenues make up the majority of its income although it has been confirmed that the DfT will make good these losses in the form of Light Rail Restart Grant until the end of March 2021.

The support given by the Authority to bus operators through subsidised services and the concessionary fares schemes has been directed by the Cabinet Office guidance since the start of the crisis. In the same way, payments to Adult Education providers have been made in line with this guidance. Whilst these payments continue to be made in much the same way and level as they would have been before the crisis hit, the value of the service being provided has changed. The Authority will continue to have contractual discussions with operators and providers to ensure that this value is tracked and monitored on an 'open book' basis as directed by the Cabinet Office guidance.

**Debt Management**

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

It's likely that the currently low rates for medium to long term borrowing will continue for a period of time, particularly if the UK and other economies enter a recession following the pandemic. This may result in a favourable outcome in purely financial terms as the cost of this infrastructure borrowing will stay with the Authority for around 30 years.

**Cashflow management**

The Authority publishes an annual Treasury Management Strategy in line with Chartered Institute of Public Finance and Accountancy Code of Practice. The policy sets out its objectives which are to ensure the security, liquidity and yield of cash balances. The priorities are listed in order of importance.

Continual cash-flow forecasting is undertaken at a short, medium and long term level to ensure that the Authority is able to plan ahead and continually monitor the financial environment assisted by sector specialists. This will ensure that there are sufficient lenders in place to borrow from in a timely and affordable manner when the need arises. The availability of funds to meet liabilities (liquidity) is ensured through the continuation of detailed cash planning and ensuring liquid products which also offer protection from loss are maximised. As a result of the crisis, it is likely that the Authority will seek out more secure investments for available cash, thereby reducing the exposure to security risk in the current market.

The Authority is already seeing some cash flow management impacts as grants from central government appear to be being received at a slower pace, one example being the Devolution Deal Grant, paid mid-April in 2019 which is anticipated to be paid towards the end of May in 2020. It's possible this is as a result of the squeeze on UK Government funds in light of recent events. Again, these are being managed through pro-active forecasting and a regular dialogue with the relevant stakeholders.

In terms of the wider economic recovery of the West Midlands region, the West Midlands Mayor and the Authority have convened a COVID-19 economic impact group to understand the unfolding economic crisis and effectiveness of the economic policy response.

The group includes leaders of major firms including NEC Group, Balfour Beatty, Deliveroo, Create Central and major banks, the TUC, universities, business representative organisations, local authority leaders, LEP chairs, the Growth Company, government officials, Innovate UK and Bank of England.

## 2. Organisational overview and external environment

The Authority came into being on 16 June 2016 by virtue of the West Midlands Combined Authority Order. At the same time, the West Midlands Integrated Transport Authority (WMITA) and the West Midlands Passenger Transport Executive (WMPTE) were dissolved. All of the functions, assets, liabilities and powers of WMITA and WMPTE were transferred to the Authority under the provisions of the 2016 Order.

The Authority is now the Local Transport Authority for the West Midlands and also has powers to exercise economic development and regeneration functions in conjunction with its seven constituent local authorities:

- 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

Leadership of the Authority comes from the Mayor and the leaders of the seven constituent local authorities, which have full voting rights. The leadership also includes the chairs of the Local Enterprise Partnerships (LEPs) which are business-led organisations that help build relationships between businesses and local authorities. Other bodies which include the LEPs and ten local councils from across the wider West Midlands region, have reduced voting rights but play a crucial role at Board level, helping to inform policy and drive forward the Authority agenda. Full details of bodies that are members of the Authority are set out in the Annual Governance Statement on page 23.

The policies of the Authority are directed by the WMCA Board which is chaired by the Mayor and are implemented by the Senior Leadership Team comprising a Chief Executive and seven Directors, supported by officers. The assurance function is carried out by both the Audit, Risk and Assurance Committee (ARAC) and the Overview and Scrutiny Committee (OSC), both of which comprise members of the constituent authorities and member bodies. Additionally, at least one independent person is appointed to the Audit, Risk and Assurance Committee as Chair. The Authority employed 563 people as at 31 March 2020. Midland Metro Limited employed 225 people as at 31 March 2020.

During the past year, the Authority has continued to work towards delivering its ambitious plans for driving inclusive economic growth in the West Midlands region and building a healthier, happier, better connected and more prosperous population and has also continued to develop strong and sustainable relationships with national government.

The West Midlands’ growth priorities and ambitions are set out in the 2015 Strategic Economic Plan. The investments and actions the Authority makes and takes are focussed on delivering this plan, working with Local Enterprise Partnerships and other partners.

The Strategic Economic Plan (SEP) sets out the overarching vision for the region which will be delivered through an aspirational and robust programme to drive and accelerate improvements in productivity and enable the West Midlands to become a net contributor to the UK exchequer, whilst improving the quality of life for everyone who lives and works in the area.

The key objectives set out in the Strategic Economic Plan are as follows:

- Economic growth
- Employment and skills
- Accessibility
- Business competitiveness and productivity
- Land

- Public service reform
- Housing
- Environment

The Authority's core values and the underpinning behaviours are as follows:

Be collaborative

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

Be innovative

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

Be driven

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

Be inclusive

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

## 3. Governance

The Authority has continued to work at pace through a period of change and development during 2019/20. The leadership team and structure has now been consolidated and continues to work on delivering improvements in structural efficiency and organisational development. Work has continued to strengthen and improve governance arrangements, Standard of Board Reporting, Forward Planning and the work of ARAC and OSC. Both ARAC and OSC have had an active programme of meetings and have fulfilled an important governance role for the Authority. The OSC undertook a number of in-depth reviews and held three Mayoral question time events. The Chairs of both Committees contribute regularly to the WMCA Board meetings to highlight the work and recommendations of their committees.

The last year has seen the Authority working in a time of extreme political and policy uncertainty caused by debates over Brexit and other issues. Whilst these issues have to a degree been settled (although there is still lack of clarity over the shape of the UK/EU Trade Deal), the COVID-19 public health crisis has brought changes and challenges to every sphere of the country's life with the West Midlands being particularly affected. This has brought particular governance challenges with the inability of elected members to meet together in the early stages of the crisis to take decisions. Meetings were suspended towards the end of March 2020 although re-started virtually using the Regulations published by the Government which came into force in April 2020, allowing participation by remote attendance. These Regulations will be reviewed by April 2021.

The Authority continues to mature and evolve through a period of growth and the operational model is becoming more complex – particularly in light of the existing and potential additions to the Authority functions. A particular focus in the last year has been an intensive piece of work to overhaul and improve our Assurance Framework to ensure that it reflects best practice and the Ministry of Housing, Communities & Local Government (MHCLG) guidance of single pot assurance. The Authority's Constitution is also undergoing review and the proposed changes will be considered by the WMCA Board in due course.

A Local Industrial Strategy (LIS) implementation group was put in place to support existing portfolio governance, made up of members from the LEPs, West Midlands Growth Company Limited and WMCA staff. Plans for the delivery of this project and the progress dashboard were approved at the November Strategic Economic Development Board. Some change has already been implemented but extended funding uncertainty is constraining the ability to make longer term plans.

Further details are set out in the Annual Governance Statement that can be found on pages 23 to 30.

## 4. Operational model

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

The major source of funding for operational expenditure is the Transport levy which is paid by local authorities to the Authority to discharge its Transport duties. The Department for Education provide the funding for post-16 education through the Adult Education grant whilst other specific grants from government, investment income generated on balances and fees paid by the Constituent and Non-Constituent Members of the Authority support the work of all other delivery portfolios. Unlike many other local authorities, the Authority does not have significant commercial lines of activity which could provide additional income but also expose the funding to risk and uncertainty. Where commercial undertakings are made that has been done through the separate vehicles such as Midland Metro Limited (MML), WM5G Limited (WM5G) and other subsidiary undertakings.

The Devolution deal grant and a share of business rates support the Investment Programme, and the Capital Programme is funded predominantly by government grants and borrowing.

Detailed workforce planning, monitoring and management is undertaken by the Human Resources team within Corporate Services via business partner liaison with officers responsible for managing and recruiting, taking into consideration issues of capability and capacity. Staffing skills are maintained through the Authority's continuous staff development and training programme and performance is monitored by the Performance Development Planning process that is now embedded at the Authority.

Table 1 below sets out the headcount (March 2020) and established full time equivalent (FTE) posts as well as the number of vacant posts:

**Table 1: WMCA, MML & WM5G Staffing Analysis — March 2020**

| No. | Headcount | FTEs | Vacancies |
|---|---|---|---|
| TfWM | 306 | 283.4 | 8 |
| Corporate Services | 156 | 153.1 | 5 |
| Commissions | 80 | 79.5 | 14 |
| Mayor's Office | 6 | 6.0 | 0 |
| Midland Metro Limited | 225 | 217.9 | 9 |
| WM5G Limited | 13 | 13.0 | 5 |
| Total | 786 | 752.9 | 41 |

With regard to Equal Pay requirements contained within the Equality Act, the Authority ensures there is no pay discrimination within its pay structures and that all pay differentials can be objectively justified through the use of equality-proofed job evaluation mechanisms which directly relate salaries to the requirements, demands and responsibilities of the role. This policy has been the subject of a review by the Authority's Audit, Risk and Assurance Committee.

## 5. Review of the year

This section provides a summary of delivery and progress against the WMCA Annual Plan 2019/20 looking back at delivery and progress against the actions, activity and outcomes we set out in our 2019/20 plan and also summarises the region's performance against a range of economic health and growth indicators, and enables developments in the region's economy and society over the last year to be illustrated.

Following the identification of the Authority's aspirations and strategic outcomes in the Strategic Economic Plan, the business planning process for 2019/20 began in the autumn of 2018 including consultation with Budget Holders across the Authority, leading to the preparation of the Financial Plan for 2019/20 onwards and the detailed budget for 2019/20.

The Business Planning process sets out an approach to resource management that allows planning for the Authority's ambitious outcomes within the resources available to the Authority, which at the same time recognises the importance of driving efficiency in the way that the Authority does business, including the better use of technology.

Last year's Annual Plan was approved by the WMCA Board Annual General Meeting in June 2019. It outlined how the Authority (and TfWM) would work with its partners and stakeholders towards delivering its ambitious plans for driving inclusive economic growth in the West Midlands region and building a healthier, happier, better connected and more prosperous population. The Plan was structured on the key strategic priorities and councillor-led portfolios, along with information about our services that enable and support delivery (Corporate Services). The Annual Plan was also subjected to review by the Authority's Overview and Scrutiny Committee by way of a Question and Answer session with the Mayor, Deputy Mayor and Chief Executive.

In 2019/20 the Authority delivered transport services and improvements, built key infrastructure, supported the most vulnerable in our communities, and grew our regional economy. There were some serious challenges – the uncertainty during Brexit negotiations created economic instability, and the final month of the financial year saw the beginnings of COVID-19s impact. Yet overall, this was a year in which the Authority delivered against the commitments in our Annual Plan and continued working with partners to generate real improvements in the lives of people in the West Midlands. Key highlights of our year include:

### Transport

- Completed 2km of new Metro track and opened an extended line to the Library of Birmingham.
- Delivered the Regional Transportation Coordination Centre to keep the region moving by managing disruption across road, rail, tram, and train.
- Extended the half-price travel offer to all young people aged 16-18, on bus, rail and Metro, enabling an extra 100,000 young people to benefit.
- Secured £24.2 million to deliver new cross city bus routes, as part of a programme which could benefit up 70 million passenger per year.
- Expanded the biggest Swift smartcard system outside of London, with new products and contactless payments available on all bus operators, with customers now making over 50m journeys made per year.
- Supported NHS workers during the COVID-19 pandemic, using our Ring and Ride service to shuttle frontline staff between hospitals and our free Park and Ride sites.

**Housing & Land**

- Deployed £41 million of Land Fund investment in just 5 months unlocking 2,269 new homes on brownfield sites.
- Established a ground-breaking regional approach to defining housing affordability, ensuring that our funding is used to secure housing that reflects local incomes and local needs.
- Launched our regional Design Charter, providing an extra tool to secure good urban design and high-quality development.
- Enabled a 15.8% increase in new homes in 2019/20, reaching a total of 16,938 and exceeding the target trajectory in the Authority's Housing Deal to deliver 215,000 new homes by 2031.

**Productivity & Skills**

- Secured 1000 work experience opportunities for young unemployed people in partnership with Movement to Work.
- Delivered the £5m Construction Gateway retraining programme, shaped by our industry-led Construction Skills Taskforce.
- Secured further funding to enable bespoke construction training, including on-site training hubs in Perry Barr, Wednesbury, Wolverhampton and Coventry, to upskill the existing workforce and support new entrants to the sector.
- Established a new approach to encourage businesses to transfer unused levy to support apprenticeships at small and medium-sized businesses (SMEs), securing £7.01m and supported over three hundred apprenticeships and well over a hundred SMEs.

**Economy & Innovation**

- Published the UK's first Local Industrial Strategy, identifying four major new market opportunities and shaping strategies to support these areas.
- Launched Create Central, a private sector led partnership to drive investment, growth and jobs in the screen industries.
- Delivered the first 6 months of the Creative Scale up pilot, with cohorts and workshops throughout the region.
- Developed the first phase of the West Midlands Innovation Programme, securing £3m funding and appointing initial specialists in the low carbon and creative sectors as part of the virtual innovation team.

**Environment & Energy, HS2**

- Integrated the Energy Capital Partnership into the Authority and secured £500k of direct future funding and £9m investment to design smarter local energy infrastructure across the region, through the Prospering from the Energy Revolution funding stream of Innovate UK.
- Commissioned a study from the Tyndall Centre to set the target date for net zero carbon emissions for the West Midlands Combined Authority area.
- Produced #WM2041, a green paper for consultation, outlining the actions that will need to be taken in order to reach net zero carbon emissions by 2041.

**Public Service Reform & Social Economy**

- Launched the final report from the Social Economy Taskforce and began developing a business plan to double the size of the social economy in 10 years.
- Developed a new regional, collaborative and scaled up approach to reducing violence, vulnerability and exploitation through the Violence Reduction Unit.
- Worked to reduce homelessness - housing 172 people through our Housing First Pilot and launching an ambitious programme of work to support homeless veterans.

**Culture & Digital**

- Established the Cultural Leadership Board, with initial workstreams on the role of culture in the Authority's policies and priorities, building financial resilience in the cultural sector, improving diversity in cultural leadership.
- Delivered our nationally leading 5G programme, helping over 20 towns and cities access 5G through the Infrastructure Accelerator and supporting local authorities and network operators through a Connected Map of existing infrastructure and assets.

**Wellbeing**

- Continued delivering Thrive West Midlands, including getting 500 individuals into work, registered over 400 businesses on the Thrive at Work programme supporting improved wellbeing for up to 235,000 employees.
- Established a collaborative leadership programme for the region which is helping to shape the wellbeing and sport legacy for the Commonwealth Games.
- Focused on delivering a Population Intelligence Hub which is creating the key priorities for the Wellbeing Board and focusing future activity.

**Inclusive Communities**

- Created the Inclusive Communities portfolio in June 2019, cementing our commitment to supporting and enabling growth that is inclusive.
- Established a Young Combined Authority in September 2019, bringing together a diverse board of young people, aged 16 – 25, from across the West Midlands.
- Worked with business to promote inclusion including the creation of a toolkit (Summer 2019) and marking one year of the Inclusive Leadership Pledge.

**Enabling Delivery**

- Made funding approvals of £140.8m from the WMCA Investment Programme, bringing the total cumulative funding approvals to £775.0m as at 31 March 2020.
- Continued to embed Social Value into procurement exercises, securing over £2.5m of social value commitment within contracts awarded, with over £2.0m social value commitments delivered to date.
- Supported the organisation in becoming an accredited Living Wage Employer, with Real Living Wage questions now forming part of our tender processes.
- Featured in the 2019/20 Inclusive Top 50 UK Employers list and the National Centre for Diversity Grand Awards Top 100 Index 2002.

## 6. Operational performance

The WMCA SEP Performance Management Framework provides a clear framework against which success can be measured. The vision for the region has a number of smart objectives, based on the principles of balance, with clear targets. The Performance Management Framework is composed of a selection of strategic headline indicators, which measure the impact of the various programme areas of the West Midlands SEP. These indicators span a wide range of themes including productivity, employment and skills, infrastructure, competitiveness, sustainability and public service reform and measure the economic, social, fiscal and environmental impact.

The Performance Management Framework is independently maintained and updated by the Economic Intelligence Unit of Black Country Consortium Ltd who provide in depth cross-thematic spatial analysis on behalf of the Authority.

The Economic Intelligence Unit will annually monitor the Authority's progress in relation to the targets in the Performance Management Framework so that we can be clear on the impact of our delivery plan in achieving our ambitions.

The indicators in the Performance Management Framework will also be the basis upon which we appraise and prioritise our programme of interventions to deliver the WMCA SEP. These carefully targeted set of interventions will ensure delivery of the greatest economic benefits to the area and allow us to create opportunities across the Authority.

The headline strategic objectives set out in the SEP are as follows:

- **Economic growth** - to improve gross value added (GVA) for the region in line with the UK average
- **Employment and skills** - to improve the balance between the skills that businesses need and the skills of local people so that they have the skills and qualifications to access jobs
- **Accessibility** - to improve the connectivity of people and businesses to jobs and markets respectively
- **Business competitiveness and productivity** - to improve the productivity (GVA) of businesses, focussing on growth sectors
- **Land** - to improve the quantity of high quality, readily available development sites to high quality locations that meet housing and business needs
- **Public Sector Reform** - to secure better for less from public services, improve the life chances and the health and wellbeing of communities
- **Housing** - a greater and broader range of homes
- **Environment** - improved competitiveness through energy and resource efficiency, stimulating new technology and business

**Regional Economic Context**

The fundamentals of the region’s economy demonstrated significant resilience over the past year.

- Gross value added (GVA), the measure used to assess the value of goods and services in an area, grew above the UK at 4.0% (compared to 3.4%) and is at a nine-year high reaching £105.1bn.
- This is matched by a record high in the amount of GVA generated per person, at £25,183, which also grew above the UK average.
- GVA per hour, used to measure productivity, is increasing at 3.3% compared to the UK at 2.7%. However, the absolute level of GVA per hour (£32.69) is still £2.34 below the UK average.
- These regional figures also disguise significant variation at a local level, with GVA per head in Solihull at £45,505 compared to Sandwell at £19,326.
- Economic growth was matched by growth in the number of active enterprises at 3.3%, again above the UK at 0.5%.
- There was also a rise in the number of new enterprises at 1.7% while the UK average decreased at 0.3%.
- From April to June 2019, the employment rate increased by 0.7pp - the largest increase in employment rates of all UK regions.
- However, the five-year survival rate of businesses was slightly below the UK average at 43.1%, and the number of jobs created reduced by 0.9%.

Regional opportunities, such as HS2 and the metro link extension, continue to drive investment into the region.

- Foreign investment has trebled since 2011 and as a region we uniquely have a trade surplus with both China and the USA.
- The 906 Foreign Direct Investment (FDI) projects in the WMCA area from 2011/12 to 2018/19 created over 50,000 new jobs.
- In 2019, the West Midlands Regional trade in goods exports was worth £31.6bn, a decrease of 5.5% compared to 2018. The UK increased by 2.1% to reach an estimated £346.5bn.
- The West Midlands has a trade deficit of £4.8bn, whilst the UK has an overall trade deficit of £136.8bn.

In 2019 Brexit-related uncertainty was an anchor on regional growth, as demonstrated in regional PMI – the seasonally adjusted index that measures services and manufacturing growth – which hovered in contraction for many months.

The COVID-19 pandemic in the final month of the financial year reflects an increasing risk to the region's prosperity. Initial indications based on the data available at year end suggested West Midlands GVA contracted by 2.4%. Our regional strengths may provide a springboard for approaching the post-COVID-19 'bounce back', but all indications are that the economic effects will be significant in the medium to long-term.

## 7. Financial performance

The following paragraphs provide a brief overview of the financial position of the Authority in terms of the Authority's management accounting framework rather than the statutory accounting framework, to aid in understanding the statutory accounts.

### Revenue Performance

Table 2 set out below shows the overall consolidated revenue position for the Authority compared with the budget that was approved by the WMCA Board in February 2019 and is set out in the same way as the regular financial reports that are considered by the WMCA Board. This means that the table excludes statutory accounting and funding adjustments required by the Code of Practice on Local Authority Accounting, setting out the outturn position in the same way that the Authority's finances are planned and managed throughout the year.

**Table 2: West Midlands Combined Authority Revenue Outturn 2019/20**

| | 2018/19 | 2019/20 | | |
|---|---|---|---|---|
| **£ million** | **Actual** | **Budget** | **Actual** | **Variance** |
| **Expenditure** | | | | |
| Transport Services | 115.78 | 115.72 | 111.88 | 3.84 |
| Combined Authority other services | 8.62 | 97.42 | 89.81 | 7.61 |
| Mayor's office | 0.78 | 0.80 | 0.80 | - |
| Investment Programme | 41.59 | 42.50 | 42.57 | (0.07) |
| **Total Expenditure** | **166.77** | **256.44** | **245.06** | **11.38** |
| **Income** | | | | |
| Transport Levy | 114.72 | 114.72 | 114.72 | - |
| Devolution Deal Grants | 40.15 | 127.96 | 121.41 | (6.55) |
| Constituent / Non-Constituent Members | 5.06 | 5.07 | 5.07 | - |
| Share of Business Rates | 4.76 | 6.00 | 6.00 | - |
| Investment Income | 0.82 | 1.69 | 1.26 | (0.43) |
| Contributions from reserves | 1.25 | 1.00 | 1.00 | - |
| **Total Income** | **166.76** | **256.44** | **249.46** | **(6.98)** |
| **Net Surplus/(Deficit)** | **(0.01)** | **-** | **4.40** | **4.40** |
| Transfer to Efficiency Reserve | - | - | 3.05 | 3.05 |
| Transfer to Covid-19 Reserve | - | - | 1.33 | 1.33 |
| **Net Surplus/(Deficit) after transfer to reserves** | **(0.01)** | **-** | **0.02** | **0.02** |

The table shows that the budget anticipated expenditure of £256.4m, funded by the Transport Levy, government grants, business rates growth and contributions from members.

Savings were made against the base budget in 2019/20 as the Authority adopted an approach at budget setting for 2020/21 to deliver savings in the 2019/20 financial year to support the budget in 2020/21. Planned transfers to reserves to support the 2020/21 budget amounted to £3.05m overall and transfers to reserves to set aside available funding to protect against the impact of COVID-19 in 2020/21 amounted to £1.33m overall.

The savings primarily arose from reduced expenditure on concessionary travel as a result of lower patronage than anticipated as well as additional income from grants awarded. Lower patronage was experienced throughout the year as a result of lower passenger volumes than anticipated. The impact of COVID-19 is reflected only towards the end of the financial year as people began to work from home or were furloughed as a result of the COVID-19 crisis. This position was partly offset by lower investment income than anticipated as a result of the requirement to set aside prudent provision in respect of loan repayments in the current economic climate.

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**Capital Programme Performance**

The Authority approves the Capital Programme for the financial year as part of the budget setting process and the amount that can be spent is limited by the amount of capital resources available.

Many of the schemes within the Capital Programme take some time to develop and implement over a period of some years and therefore considerable variations can arise.

The Authority spent £194.7m on capital projects in 2019/20 which was £118.1m less than the budget of £312.8m and primarily reflects the re-phasing of activities in relation to the various Metro extension schemes which are taking place slightly later than originally planned. The main variances at the end of March were contained within the Metro Programme totalling £38.2m. Although delivery schedules are not anticipated to be impacted by rephasing of expenditure plans, it’s likely that the COVID-19 pandemic will lead to further rescheduling and prioritisation of capital expenditure plans.

Major items of capital spend in the year were:

- Wednesbury to Brierley Hill Metro Extension £20.15m
- Edgbaston Metro Extension £14.55m
- SPRINT Hagley Road £4.06m

The capital programme spend of £194.7m was financed in the following way:

**Table 3: Financing of Capital Expenditure 2019/20**

| | **£ million** |
|---|---|
| Government grants | 83.40 |
| Borrowing | 97.42 |
| District/Local Enterprise Partnership (LEP) grants and contributions | 2.51 |
| Third party contributions | 4.05 |
| Gainshare contribution | 7.32 |
| **Total** | **194.70** |

## 8. Strategy and resource allocation

The Authority currently plans its finances over a medium term 5-year rolling period and it includes all known financial pressures that it faces over the medium term in its Financial Plan.

The Medium-Term Financial Plan (MTFP) incorporates a broad estimate of the financial impact of the following risks and sensitivities:

- Demographic growth and demand pressures specifically where transport payments and services are directly affected by patronage demands;
- Inflation;
- Brexit, to the extent that there may be potential for increased costs of supply of labour, goods and services; and
- Business Rates Retention Scheme and the achievement of growth targets, including the retention mechanism currently being developed through the West Midlands Finance Directors' Group.

The current Medium-Term Financial Plan assumes a cash flat funding requirement from Constituent Authorities both in terms of the Transport for West Midlands levy over the three-year period 2019/20 to 2021/22 and their contributions to the Authority’s Delivery Budget in the latter two years. Whilst this currently represents the planning assumption, it is acknowledged that this creates a potential financial risk specifically with regard to inflationary increases, pay and legislative changes and demand in terms of patronage and the impact of these risks will be kept under review.

Assumptions have been made around pay and price rises and the Consumer Prices Index along with changes in patronage and fares. Any variation on this for 2020/21 will need to be managed within the available resources. These clearly may change significantly over the medium term meaning a cash flat position may not be achievable without changes to policy. Medium term planning assumptions will also be kept under constant review to reflect the latest available information in relation to the COVID-19 pandemic.

The Medium-Term Financial Plan reflects the Authority's obligations as a Best Value authority to make arrangements to secure continuous improvement in the way in which our functions are exercised, having regard to a combination of economy, efficiency and effectiveness, including consultation with taxpayers and users as appropriate.

**Table 4: Medium-Term Financial Plan 2020/21 to 2024/25**

| | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|---|---|---|---|---|---|---|
| Transport Levy | 114.7 | 114.7 | 114.7 | 114.7 | 114.7 | 119.7 |
| Devolution Deal Grants | 126.6 | 172.0 | 167.3 | 162.6 | 162.6 | 162.6 |
| Business Rates Share | 6.0 | 7.5 | 9.0 | 10.5 | 12.0 | 13.5 |
| Constituent Membership | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 |
| Non-Constituent Members | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Investment Income | 1.7 | 1.8 | 1.8 | 1.9 | 2.1 | 2.3 |
| Mayoral Precept | 0.0 | 0.0 | 7.2 | 7.3 | 7.4 | 7.5 |
| 3rd party Income / Other | 0.5 | 0.4 | 2.0 | 2.6 | 2.6 | 2.7 |
| Commonwealth Games | 0.0 | 1.4 | 1.4 | 0.6 | 0.0 | 0.0 |
| Use of Reserves | 2.1 | 4.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Unsecured Funding | 0.0 | 3.6 | 1.0 | 1.0 | 1.0 | 1.0 |
| **Total Funding** | **256.6** | **310.8** | **309.4** | **306.2** | **307.4** | **314.3** |
| Transport for West Midlands | 115.7 | 119.8 | 122.8 | 123.7 | 128.5 | 136.0 |
| WMCA Delivery Budget | 97.6 | 142.6 | 140.9 | 137.4 | 137.6 | 137.8 |
| Investment Programme | 42.5 | 44.0 | 51.9 | 53.4 | 55.0 | 56.6 |
| Mayoral Office | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 1.0 |
| Mayoral Election | 0.0 | 3.6 | 1.0 | 1.0 | 1.0 | 1.0 |
| **Total Expenditure** | **256.6** | **310.8** | **317.5** | **316.4** | **323.0** | **332.4** |
| **Net Expenditure** | **0.0** | **0.0** | **(8.1)** | **(10.2)** | **(15.6)** | **(18.1)** |

The medium-term planning position set out in the table above was noted by WMCA Board in February 2020. A balanced budget position for 2020/21 was approved, however, there currently remains a gap in available funding to support expenditure plans ranging from £8.1m in 2021/22 rising to £18.1m in 2024/25.

It is increasingly acknowledged that combined authorities don't have an adequate sustainable funding base and therefore need to bid for much of the resources they do have. The councils that make up mayoral combined authorities also have a financial system that is subject to ongoing review. It is therefore clear that more stable and long-term funding is needed to enable combined authorities to deliver their priorities.

The Authority will continue to review existing established expenditure budgets to drive efficiency savings in the medium term and is continuing to lobby government alongside other Mayoral combined authorities, for sustainable funding for Mayoral combined authorities to be included in the government's spending plans, including funding for the Mayoral Election planned for May 2020 which has now been postponed until May 2021 and future Mayoral Elections.

The Medium-Term Financial Plan position set out above was developed before the onset of the COVID-19 crisis and the Authority therefore intends to begin an urgent refresh of its Medium-Term Financial Plan position early in 2020/21 to enable the latest position on additional spending requirements and reductions in income to be reflected in the updated Medium-Term Financial Plan position.

Significant matters that may affect future cash flows are as follows:

- **COVID-19** – the impact of the COVID-19 crisis on the Authority's financial position is being assessed both in terms of the negative impact on revenue income and the increased risk of cost escalation in delivering its approved Capital Programme and Investment Programme.

- **Capital Financing Costs** – the Authority opted to change the way it calculates Minimum Revenue Provision (MRP) in the 2017/18 financial year. The change was approved by the WMCA Board in November 2017. The reduction in the MRP charge is for a six-year period (2018/19 to 2023/24 inclusive) whereupon the MRP charge will revert to its previous level. The resulting favourable variance achieved in 2017/18 will be used to support the Transport Delivery Budget during the period 2018/19 to 2020/21.

- **Pensions costs** – the Authority has received its triennial actuarial valuation which sets the contributions for the three years beginning 2019/20. It has agreed to prepay these in order to benefit from a discount.

- **Interest Rates** – the ongoing period of low interest rates has impacted on investment returns.

- **Commonwealth Games** – the 2022 Commonwealth Games in Birmingham will be the biggest sporting event to be awarded in England since the London Olympics in 2012. Between 500,000 and one million people are expected to descend on Birmingham over the 11-day sporting event in the summer of 2022 and the Games are anticipated to generate a boost of more than half a billion pounds to the West Midlands region. At the time of writing, the Games are anticipated to go ahead as planned in 2022, however, in the light of recent announcements in relation to major sporting events such as the 2020 Olympics, certainty of timing is under constant review.

- **Mayor's budget and precept** – All Metropolitan Mayors have powers to raise a Mayoral Precept; effectively an incremental charge on top of existing Council Tax bills. In February 2019, the WMCA Board approved a nil precept for the Mayor's remaining term in office, which is now be extended to May 2021 due to the COVID-19 outbreak.

- **WMCA's Investment Programme** – The Investment Programme aims to deliver an ambitious programme of infrastructure and other measures that are aimed at driving inclusive economic growth in the West Midlands Region. Funding for the programme to date is predominantly though Gainshare Grant and Share of Business Rates with other options for raising the required funding under continual review. Until such time that those additional revenues are realised, the programme will remain within the affordable limit as agreed by WMCA Board.

- **Borrowing Powers** – the amendment to statutory regulations that extended the Authority to borrow for non-transport capital schemes was confirmed in May 2018 subject to the Authority agreeing to operate within an agreed borrowing cap set by HM Treasury. The final year of the three-year cap is in 2020/21 (£867.3m) and the Authority expects to commence a dialogue with HM Treasury during 2020/21 about the value of the borrowing cap which will be effective from 2021/22 onwards.

- **Business Rates Supplement** – the Authority has the same legal powers as Local Authorities to raise a business rate supplement subject to it gaining consent from businesses affected by the charge. Recognising the regional impacts such a charge may have on local businesses, the prospect to implement a Business Rates Supplement was placed on hold by WMCA Board in July 2019.

- **Midland Metro Limited** – 2017 saw the establishment of the Authority's wholly-owned subsidiary, `Midland Metro Limited' that has been created to take over the day-to-day running of Midland Metro trams in the West Midlands region and is expected to generate profits of around £50m over the first 11 years which will be channelled back into the network for the benefit of passengers and the local economy. Patronage falls during the coronavirus outbreak have significantly increased the risk to the funding of this investment.

- **Commercial & Residential Investment Funds** – the Authority employs West Midlands Development Capital Limited (a subsidiary of the Authority incorporated in 2017) as the fund manager for these commercial loans. The WMCA Investment Funds support the acceleration of commercial / residential property developments within the West Midlands area where traditional lending is not readily available.

  These are revolving loan funds that aim to underpin the region's long-term growth and stability and are open to developers seeking finance of £1m to £10m. The fund commits repayable loan capital to eligible commercial, light industrial and residential regeneration opportunities at commercial rates of interest. The maximum value of commitments the Authority will allow against the total fund has been increased from £70m to £210m.

  The Authority is obliged under the Accounting Standards to make a suitable financial provision for credit losses which, in the event of a default, would be used to negate the in-year impact of the event.

- **General fund balances –** although clearly the appropriate level of general fund reserves is a matter for judgement by the Finance Director (Section 151 Officer), the generally accepted practice is for general fund reserves to be between 3% and 5% of expenditure. The proposed balance is below this recommended level and consideration should be given over the medium term to increase the level of General Balances to ensure risk can be managed within the Authority without creating volatility on Constituent Authority contributions.

## 9. Risks and opportunities

The Authority has put in place a system of internal control designed to manage risks to a reasonable level and aims to identify and prioritise the risks to the achievement of policies, aims and objectives; and evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically.

The Authority has 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 the Senior Leadership Team. It provides visibility of risk at operational, programme and strategic levels.

The principal risks and uncertainties faced by the Authority in relation to future service provision, including those in connection with the continued availability, quality and affordability of key resources that the authority depends on to deliver its service are that there is a risk that:

- the Authority is negatively impacted by either the Comprehensive Spending Review and or the approach to business rates localisation leading to a risk that baseline funding is not secure and depends on one-off grants from government for core spending commitments.
- assumptions of the Devolution Deals do not prove to be achievable resulting in a lower available level of funding for the Investment Programme.
- external challenges or changes in policy from global, EU or government / political or financial change are not factored into WMCA plans, which could make delivery ambitions more difficult to achieve.
- as the Authority continues to expand and absorb new remits and accountabilities that the Authority's stakeholders become more pressured in terms of their funding contributions.
- capacity and skills amongst managers and officers are insufficient, or conflicts with other priorities, which will impact on the ability to deliver the Authority's strategic deliverables which will impinge on the organisation's ability to secure future funding opportunities.
- a lack of progress with local plans, which the Authority does not control, could affect securing continuing funding and support from government to achieve the Housing and Land goals.
- having chosen to use commercial company delivery models in some areas, challenging economic conditions and/or material loss of revenue from investments may result in:
    - a) commercial models not being able to deliver expected benefits and commercial revenue targets and/or
    - b) the structure exposing the Combined Authority to greater financial risk if the delivery model is unsuccessful.

The Authority has also put in place and continues to develop a robust monitoring framework that measures the performance of the Authority and gauges how the Authority is progressing against the SEP and the Mayor's Renewal Plan.

Capacity and skill availability have been considered an issue and as noted in Table 1 above, the Authority was carrying a significant number of vacancies as at 31 March 2020. However, it should be noted that the number of vacancies as at 31 March 2020 (41) compares favourably with the number reported in last year's report (57). A formal capability and vacancy risk management plan has been put in place with updates and assurance provided to the Audit, Risk and Assurance Committee to ensure that the potential risks associated with a high proportion of vacancies are managed effectively.

Opportunities for further devolution of responsibilities are sought where in accordance with the Strategic Priorities of the Authority.

The Authority has taken the opportunity to make a submission to the Comprehensive Spending Review, although this has now been delayed due to Brexit and the COVID-19 outbreak. This submission would seek to place the Authority on a stronger and more resilient basis for funding of its core operations and build on its potential to draw additional funding into the West Midlands region.

Opportunities to generate additional revenue streams are actively explored. Recent examples include the generation of additional advertising revenue from the Authority's bus shelters in conjunction with a private sector partner as well as taking on the operation of CCTV for a number of partners in our new Regional Transport Coordination Centre hub.

The Single Commissioning Framework approved by the Authority to guide deployment of devolved housing and land funds and its associated gateway process is used by the Authority to ensure value for money, risk management, effective due diligence and ensuring the Authority is intervening where there is demonstrable market failure to secure additionality and wider inclusive growth objectives.

The Authority has also actively sought new commercial trading opportunities and in doing so has established two subsidiaries since its inception.

The largest subsidiary is 'Midland Metro Limited' which operates light rail in the region. The commercial model is expected to generate surpluses which will be channelled back into the light rail network for the benefit of passengers and the local economy.

The second subsidiary, WM5G Limited, came into operation in 2019/20 in order to channel the investment from central government through the Department for Digital, Culture, Media & Sport (DCMS) into the development of new 5G technology at its testbed in the West Midlands.

## 10. Midland Metro Limited

Midland Metro Limited (MML) is a private limited company wholly owned by the Authority and was incorporated in 2017. The main business of MML is to provide passenger light rail transportation operation and maintenance of the Midland Metro in accordance with the terms of the public service contract with the Authority.

MML started trading on 24 June 2018 on commencement of the franchise and as a 100% subsidiary of the Authority, has now been consolidated into the Authority's group accounts.

Income mainly consists of passenger revenue from on tram sales and income received from the Authority in respect of travel card sales and concessionary travel reimbursement.

Under the terms of the public service contract, MML receives a subsidy in loss making years to enable it to break even. A franchise fee will be paid to the Authority in profit making years.

## 11. WM5G Limited

West Midlands 5G Limited (WM5G) is a private limited company wholly owned by the Authority and was incorporated in February 2019. The main business of WM5G is to be the UK's first region-wide 5G test bed and thus accelerate 5G deployment across the region to achieve citizen, public and private sector benefits from 5G.

WM5G started trading on 1st April 2019 as a 100% subsidiary of the Authority, and has now been consolidated into the Authority's group accounts.

Income mainly consists of grants from the DCMS and the Authority in respect of funding of initiatives and competitions to acceleration 5G Infrastructure and Applications.

## 12. Basis of preparation

The Authority's Statement of Accounts have been prepared under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and are for the full year from 1 April 2019 to 31 March 2020.

The Group Accounts comprise of:

- i) The Authority.
- ii) Midland Metro Limited, a wholly-owned subsidiary of the Authority, established in 2017 to take over the day-to-day running of Midland Metro trams in the West Midlands region from 24 June 2018 with the aim of channelling profits back into the tram network for the benefit of passengers and the local economy.

iii) WM5G Limited, a wholly-owned subsidiary of the Authority, established in 2019 to accelerate the benefits of 5G throughout the region and working in partnership with public and private sectors organisations to deliver projects to speed up the launch of 5G networks.

The Statement of Accounts covering the Authority and the Group 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.

**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).

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

**Cashflow Statement**
The Cashflow Statement shows the changes in cash and cash equivalents during the year. The statement shows how the Authority and the Group generate and use cash and cash equivalents by classifying the cash flows as operating, investing and financing activities.

## 13. Directors and Senior Officers

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

| Directors/Senior Officers | Title | Appointment/Resignation |
|---|---|---|
| Deborah Cadman | Chief Executive | |
| Gareth Bradford | Director of Housing and Regeneration | |
| Henry Kippin | Director of Public Service Reform | Resigned – 29 November 2019 |
| Ian Martin | Director of Investment and Commercial Activities | Appointed – 29 April 2019 |
| Julia Goldsworthy | Director of Strategy | |
| Julie Nugent | Director of Productivity and Skills | |
| Laura Shoaf | Managing Director, Transport for West Midlands | |
| Linda Horne | Finance Director | Appointed – 6 June 2019 |
| Simon Wren | Director of Strategic Communications and Public Affairs | |
| Tim Martin | Clerk to the WMCA and Monitoring Officer | |

The title Director of Public Service Reform was re-named to Director of Inclusive Growth & Public Service Reform and appointed in April 2020.

## 14. Auditors

Grant Thornton (UK) LLP are the auditors of the Authority for 2019/20. Their appointment was made under Section 3 of the Audit Commission Act 1998, saved under provisions of the Local Audit and Accountability Act 2014.

**On behalf of the West Midlands Combined Authority Board**

**Deborah Cadman**
**Chief Executive**
**Date:** 29 November 2020

## 1. The Authority's Responsibilities

The Authority 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 which during 2019/20 were:

| Period | Individual | Role |
|---|---|---|
| 15 December 2018 – 5 June 2019 | Linda Horne | Interim Finance Director |
| 6 June 2019 – current | Linda Horne | Finance Director |

(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 Responsible Finance Officer's Responsibilities

The Responsible Finance Officer is responsible for the preparation of the 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 Responsible Finance Officer 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 Responsible Finance Officer 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 the Authority at the reporting date and of its income and expenditure for the year ended 31 March 2020.

**Linda Horne**
**Finance Director and Responsible Finance Officer**
**Date:** 27 November 2020

## 4. Approval of the Accounts

I certify that the audited Statement of Accounts covering the period 1 April 2019 to 31 March 2020 were approved by a resolution of the Audit, Risk and Assurance Committee on 14 July 2020.

**David Lane**
**Chair of the Audit, Risk and Assurance Committee**
**Date:** 27 November 2020

## Scope of Responsibility

This Annual Governance Statement (AGS) reflects the activities of the Authority from 1 April 2019 to 31 March 2020.

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

The Authority Constituent authorities consist of the seven district councils across the region:

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

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

Non-constituent authorities

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

LEP members

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

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

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

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

- Trade Union Congress (TUC)

The Authority currently has 6 active Arm's Length Company relationships, namely;

| No. | Company Name | Stake | Accounting Treatment |
|---|---|---|---|
| a. | West Midlands Rail Limited | 50% | Associate |
| b. | West Midlands Development Capital Limited | 100% | Subsidiary |
| c. | Midland Metro Limited | 100% | Subsidiary |
| d. | West Midlands Growth Company Limited | 5.3% | Investment |
| e. | WM5G Limited | 100% | Subsidiary |
| f. | West Midlands Integrated Transport Authority Pension Fund (closed) | N/A | Administering authority (ceased) |

The management of the West Midlands Integrated Transport Authority Pension Fund (WMITA PF) was discharged from the West Midlands Combined Authority to the West Midlands Pension Fund Pensions Committee. Assurance on governance and legal and financial controls are placed on the West Midlands Pension Fund (WMPF).

Following a process of public consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), the Regulations (Statutory Instrument 2019 No 1351, The Local Government Pension Scheme (West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund Merger) Regulations 2019) effecting the merger between the WMITA PF and the WMPF came into force on 8 November 2019 and were backdated to confirm the merger effective 1 April 2019.

Under the Regulations:

- the LGPS Administering Authority responsibilities from the Authority are transferred to the City of Wolverhampton Council as Administering Authority for the WMPF
- all legal and contractual arrangements the Authority held in relation to its role as Administering Authority are novated to City of Wolverhampton Council
- all assets and liabilities of the WMITA PF are transferred to WMPF (administered by the City of Wolverhampton Council)

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

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

**The Purpose of the Governance Framework**

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

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

In discharging this overall responsibility, WMCA Senior Leadership Team and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) which comprises the legislative requirements, systems and processes, cultures and values. This enables the Authority to govern its affairs, facilitate the effective exercise of its functions, which includes arrangements for the management of risk, in addition to exercising leadership and being held accountable for its decisions and activities.

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

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

The Authority has developed a Risk Management Strategy and strategic risk register, which is regularly reported to ARAC and the WMCA Senior Leadership Team. It provides visibility of risk at strategic, operational, and programme levels. Risk management processes are also being embedded within the organisations performance management framework as it is being developed.

**Annual Governance Statement**

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

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

These seven principles are:

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

**The Governance Framework**

**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 Governance who is the monitoring officer deals with issues of conduct and generally promotes high standards among officers, members and the Mayor. ARAC perform the role of the Standards Committee.

The Authority 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, and we are open to new possibilities and exploring new ideas
- We adopt best practices and keep up to date with new developments to enhance our work

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

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

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

## 2. Ensuring openness and comprehensive stakeholder engagement

We 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.

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

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

Where consultation is required we adhere to the principles of good consultation "the Gunning principles". A variety of measures are used to seek views from the public particularly around transport policy.

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

The Authority ensure the vision and the implications for governance arrangements are reviewed including monitoring its achievement of intended outcomes from social, economic, environmental and organisational health perspectives through the budget and performance framework and project delivery process. The performance management framework is currently being refreshed and will evolve as the organisation grows.

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

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

The Authority is working to achieve the priorities set out in the Devolution Deals that have been negotiated with Central Government. The Authority's purpose and vision are detailed in the Strategic Economic plan (SEP) and the Annual Plan. Performance against the Devolution Deals will be monitored and assessed throughout 2020/21. A gateway review in respect of the first Devolution Deal is currently anticipated in 2021.

To ensure the purpose and vision of the Authority is clear and well communicated an annual review titled The Annual Business Plan Review outlines the Authority's activities and achievements. This will be signed off by the WMCA Board in due course.

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

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

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

Corporate decisions are primarily taken at meetings of the WMCA Board, although each of the Board's thematic delivery committee's exercise a degree of delegated authority in respect of their powers to make decisions on behalf of the Authority. This includes reviewing progress of outcomes against delivery plans.

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

We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. As the Authority develops we are reviewing our governance arrangements and the Constitution to ensure they remain fit for purpose in a growing organisation. A scheme of delegation is laid out in the Constitution.

The collective and individual roles and responsibilities of the Senior Leadership Team, Members and officers have been established. We now have in place a complete and stable leadership team.

The Leadership team has reviewed the structure of Corporate Services to ensure its capability continues to meet the future aspirations of the organisation and it is anticipated that a review of business processes will be carried out in 2020/21.

We identify and aim to address the development needs of members and officers in relation to their roles and support with appropriate induction and training. In 2019/2020 a considerable proportion of the training budget was spent on the leadership of the organisation. Specifically in

2019/20, ARAC members received finance training to allow them to understand financial accounts, reporting arrangements and treasury management. An external health check and training for Overview and Scrutiny Committee was completed in 2019/20.

Training requirements for 2020/21 will be reviewed following ARAC in July. Overview and Scrutiny Committee Chairs and leading Members have also participated in external training and events.

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

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

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

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 the WMCA Board on their effectiveness. Appropriate controls are in place for arms-length companies and as good practice external auditors have been appointed for West Midlands Rail Limited, Midland Metro Limited and WM5G Limited.

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. In 2019 all the Authority’s key financial audits received a ‘substantial’ internal audit outcome.

A robust assurance framework consistently ensures governance and process are independently reviewed and reported and the risks have been identified and are being adequately managed. The assurance framework has recently undergone a review to ensure it remains fit for purpose and has been expanded to include assurance requirements for the new and proposed devolution deals. This assurance framework will be approved by Ministry of Housing, Communities and Local Government (MHCLG) and will be aligned to the National Single Pot Assurance Guidance.

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

The Authority has implemented the WMCA Assurance Framework which was approved by MHCLG (previously Department of Communities and Local Government (DCLG)) in July 2016. The Revised Assurance Framework will be presented to the WMCA Board for approval in July.

The Authority is working closely with Department for Business, Energy and Industrial Strategy (BEIS) who will review the performance of the Devolution objectives and adherence to the Assurance Framework. The Annual conversation with BEIS and MHCLG is planned for the end of June 2020.

The Authority has a monitoring officer who sits on both the Senior Leadership Team and attends the WMCA Board meetings to ensure all of our activity is legal. Our high level of Governance standards include the publishing of agendas, minutes and reports in the public domain and only limited use of confidential reporting. The 2020/21 audit plan will be approved at ARAC's July meeting.

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

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

**Annual Review of Effectiveness of Governance Framework**

**The Opinion of the Head of Governance 2019/2020**

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

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

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

The Head of Governance is satisfied that the system of internal assurance is robust and providing visibility of risk and reasonable assurance 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 and Assurance Committee. Activities include:

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

During 2019/20, the Treasury Management audit and four other 'key financial systems' audits were given 'substantial' rating by internal audit and 100% 'Green' recommendations. There are areas for improvement where 'Satisfactory' level was achieved, such as Accounts Payable (1 Amber recommendation), Employee Performance Management (50% Green recommendations), West Midlands Rail (3 Amber recommendations) and Programme and Project Management Framework (3 Amber recommendations). None of the audit recommendations were flagged as 'red' where imperative action is required. This demonstrates that the systems and processes around audit, risk and governance are effective.

A total of 45 project assurance reviews have been undertaken by the Corporate Assurance Team in this period, covering 32 different projects. These projects follow the Government Gateway Project Methodology for minor projects. This is an increase in both number and complexity on the 27 assurance reviews and 19 projects undertaken last year.

Progress of the 2019/20 Annual Business Plan was monitored on a monthly basis by internal management teams with key risks impacting on its delivery, being escalated to the directorate risk registers. The new Annual Business Plan is being developed and will be approved by the WMCA Board in June 2020.

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

There are a number of operational Risk Registers feeding into the WMCA Strategic Risk Register. Regular meetings are in place with both the management team of each business area and the Strategy Director to monitor the status of risks and to ascertain the level of risk exposure in each of these areas to determine the assurance conclusions. Additionally the Strategic Risk Register is reviewed by the Strategic Leadership Team and Audit, Risk and Assurance Committee on a bi-monthly basis.

The Authority is one of England's Combined Authorities to successfully negotiate a further devolution deal. This has helped lead to the Region successfully acquiring the Commonwealth Games in 2022, 5G programme pilot and the new Housing Delivery deal.

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

The impact of COVID-19 on the Authority's programme of work has been assessed and a recovery plan is under development in response to the latest local and national measures introduced by the Government. The pandemic has had a significant impact on the Authority's transport related income streams and plans are in place to mitigate these pressures.

**Conclusion**

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

**On behalf of the West Midlands Combined Authority**

**Andy Street**
**Mayor and Chair of the West Midlands Combined Authority**
**Date:** 29 November 2020

**Deborah Cadman**
**Chief Executive**
**Date:** 29 November 2020

## Independent auditor's report to the members of West Midlands Combined Authority

### Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of West Midlands Combined Authority (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Authority Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Authority Movement in Reserves Statement, the Group Movement in Reserves Statement, the Balance Sheet, the Cashflow Statement and the Notes to the Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Finance Director and Responsible Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.
Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Finance Director and Responsible Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Finance Director and Responsible Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Finance Director and Responsible Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

**Emphasis of Matter – effects of Covid-19 on the valuation of investment properties within the pension scheme**

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's share of the pension scheme's direct property investments as at 31 March 2020. As, disclosed in Note 3 to the financial statements, the outbreak of Covid-19 has impacted global financial markets. A material valuation uncertainty was therefore disclosed in the pension fund's investment property valuation. The Authority's proportion of these funds equates to £16m. Our opinion is not modified in respect of this matter.

**Other information**

The Finance Director and Responsible Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Authority and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016

Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

**Responsibilities of the Authority, the Finance Director and Responsible Finance Officer and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on pages 21 and 22, the Authority is required to 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. In this authority, that officer is the Finance Director and Responsible Finance Officer. The Finance Director and Responsible Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Finance Director and Responsible Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Finance Director and Responsible Finance Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Risk and Assurance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

**Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

**Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Report on other legal and regulatory requirements – Certificate**

We certify that we have completed the audit of the financial statements of the West Midlands Combined Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

**Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Grant Patterson**, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Birmingham
30 November 2020

# AUTHORITY COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing the 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.

| 2018/2019 | | | | | 2019/2020 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | | Notes | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| 163,508 | (24,275) | 139,233 | Transport services* | 7 | 178,759 | (27,418) | 151,341 |
| 12,555 | (6,445) | 6,110 | Combined Authority other services* | 8 | 90,605 | (97,131) | (6,526) |
| 34,319 | - | 34,319 | Investment Programme | 9 | 68,581 | - | 68,581 |
| 813 | (590) | 223 | Mayor's office | 10 | 752 | (804) | (52) |
| **211,195** | **(31,310)** | **179,885** | **Cost of services** | | **338,697** | **(125,353)** | **213,344** |
| 298 | - | 298 | Other operating expenditure | 11 | 325 | - | 325 |
| 10,160 | (1,703) | 8,457 | Financing and investment income and expenditure | 12 | 10,705 | (2,262) | 8,443 |
| 34,125 | (261,495) | (227,370) | Taxation and non-specific grant income and expenditure | 13 | 35,274 | (287,558) | (252,284) |
| **255,778** | **(294,508)** | **(38,730)** | **(Surplus) or deficit on provision of services** | | **385,001** | **(415,173)** | **(30,172)** |
| | | (7,866) | Remeasurement of the net defined benefit liability | 29 | | | (20,168) |
| | | **(7,866)** | **Other Comprehensive Income and Expenditure** | | | | **(20,168)** |
| | | **(46,596)** | **Total Comprehensive Income and Expenditure** | | | | **(50,340)** |
| | | 24,548 | Adjustments between funding and accounting basis under regulations | 5 | | | (3,588) |
| | | 7,866 | Transfer to Pensions Reserve | 29 | | | 20,168 |
| | | | Transfers to/from Earmarked Reserves | | | | |
| | | 5,283 | - General fund | 26 | | | 6,465 |
| | | 8,910 | - Investment programme funding | 26 | | | 27,277 |
| | | **11** | **(Surplus) or deficit for the year under funding basis** | | | | **(18)** |

*Prior year expenditure for Transport services and Combined Authority other services has been adjusted by £0.638m (see explanation in note 5(b)). Cost of Services remain unchanged.

# GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The Group Comprehensive Income and Expenditure Statement includes the results of its subsidiaries, Midland Metro Limited and WM5G Limited, and impact transport services, Combined Authority other services and financing and investment income and expenditure line items.

| 2018/2019 | | | | | 2019/2020 | | |
|---|---|---|---|---|---|---|---|
| **Gross Expenditure** | **Gross Income** | **Net Expenditure** | | | **Gross Expenditure** | **Gross Income** | **Net Expenditure** |
| £'000 | £'000 | £'000 | | Notes | £'000 | £'000 | £'000 |
| 170,426 | (31,191) | 139,235 | Transport services* | | 189,724 | (38,369) | 151,355 |
| 12,555 | (6,445) | 6,110 | Combined Authority other services* | | 97,402 | (103,927) | (6,525) |
| 34,319 | - | 34,319 | Investment Programme | | 66,876 | - | 66,876 |
| 813 | (590) | 223 | Mayor's office | | 752 | (804) | (52) |
| **218,113** | **(38,226)** | **179,887** | **Cost of services** | | **354,754** | **(143,100)** | **211,654** |
| 298 | - | 298 | Other operating expenditure | 11 | 325 | - | 325 |
| 10,160 | (1,705) | 8,455 | Financing and investment income and expenditure | 12 | 9,075 | (2,277) | 6,798 |
| 34,125 | (261,495) | (227,370) | Taxation and non-specific grant income and expenditure | 13 | 35,274 | (287,558) | (252,284) |
| **262,696** | **(301,426)** | **(38,730)** | **(Surplus) or deficit on provision of services** | | **399,428** | **(432,935)** | **(33,507)** |
| | | - | Tax expenses of subsidiary | | | | - |
| | | **(38,730)** | **Group (surplus) or deficit** | | | | **(33,507)** |
| | | (7,866) | Remeasurement of the net defined benefit liability | 29 | | | (20,168) |
| | | **(7,866)** | **Other Comprehensive Income and Expenditure** | | | | **(20,168)** |
| | | **(46,596)** | **Total Comprehensive Income and Expenditure** | | | | **(53,675)** |
| | | 24,548 | Adjustments between funding and accounting basis under regulations | 5 | | | (3,588) |
| | | 7,866 | Transfer to Pensions Reserve | 29 | | | 20,168 |
| | | | Transfers to/from Earmarked Reserves | | | | |
| | | 5,283 | - General fund | 26 | | | 8,095 |
| | | 8,910 | - Investment programme funding | 26 | | | 28,982 |
| | | **11** | **(Surplus) or deficit for the year under funding basis** | | | | **(18)** |

*Prior year expenditure for Transport services and Combined Authority other services has been adjusted by £0.638m (see explanation in note 5(b)). Cost of Services remain unchanged.

# AUTHORITY MOVEMENT IN RESERVES

The Authority Movement in Reserves Statement shows the movement in the year on the different reserves held by the 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.

| | Usable reserves | | | | | Unusable reserves | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | General Fund Balance £'000 | Earmarked Reserves £'000 | Total General Fund Balance £'000 | Capital Receipts Reserve £'000 | Total Usable Reserves £'000 | Reval-uation Reserve £'000 | Capital Adjustment Account £'000 | Pensions Reserve £'000 | Accumulated Absences Account £'000 | Total Unusable Reserves £'000 | Total reserves £'000 |
| **Balance at 31 March 2018** | **2,295** | **82,356** | **84,651** | **247** | **84,898** | **6,953** | **67,617** | **(55,377)** | **(305)** | **18,888** | **103,786** |
| **Movements in reserves during 2018/19** | | | | | | | | | | | |
| Total comprehensive income and expenditure | 38,730 | - | 38,730 | - | 38,730 | - | - | 7,866 | - | 7,866 | 46,596 |
| De-recognition of Ring & Ride vehicles under IFRIC 4 | - | - | - | - | - | - | (1,555) | - | - | (1,555) | (1,555) |
| Adjustments between accounting basis and funding basis under regulations (note 5b) | (24,548) | 93 | (24,455) | - | (24,455) | (211) | 30,287 | (5,559) | (62) | 24,455 | - |
| **Increase or (decrease) in 2018/19 before transfer to earmarked reserves** | **14,182** | **93** | **14,275** | **-** | **14,275** | **(211)** | **28,732** | **2,307** | **(62)** | **30,766** | **45,041** |
| Transfers to/(from) earmarked reserves | (14,193) | 14,193 | - | - | - | - | - | - | - | - | - |
| **Balance at 31 March 2019 carried forward** | **2,284** | **96,642** | **98,926** | **247** | **99,173** | **6,742** | **96,349** | **(53,070)** | **(367)** | **49,654** | **148,827** |
| **Movements in reserves during 2019/20** | | | | | | | | | | | |
| Total comprehensive income and expenditure | 30,172 | - | 30,172 | - | 30,172 | - | - | 20,168 | - | 20,168 | 50,340 |
| Adjustments between accounting basis and funding basis under regulations (note 5b) | 3,588 | 16,173 | 19,761 | - | 19,761 | (211) | (12,421) | (7,000) | (129) | (19,761) | - |
| **Increase or (decrease) in 2019/20 before transfer to earmarked reserves** | **33,760** | **16,173** | **49,933** | **-** | **49,933** | **(211)** | **(12,421)** | **13,168** | **(129)** | **407** | **50,340** |
| Transfers to/(from) earmarked reserves | (33,742) | 33,742 | - | - | - | - | - | - | - | - | - |
| **Balance at 31 March 2020 carried forward** | **2,302** | **146,557** | **148,859** | **247** | **149,106** | **6,531** | **83,928** | **(39,902)** | **(496)** | **50,061** | **199,167** |

The Group Movement in Reserves Statement shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and 'unusable reserves' (i.e. those allocated for specific purposes).

| | Usable reserves | | | | | | Unusable reserves | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | General Fund Balance £'000 | Earmarked Reserves £'000 | Total General Fund Balance £'000 | Capital Receipts Reserve £'000 | Reserves of the Subsidiary £'000 | Total Usable Reserves £'000 | Reval-uation Reserve £'000 | Capital Adjustment Account £'000 | Pensions Reserve £'000 | Accumulated Absences Account £'000 | Total Unusable Reserves £'000 | Total reserves £'000 |
| **Balance at 31 March 2018** | **2,295** | **82,356** | **84,651** | **247** | **-** | **84,898** | **6,953** | **67,617** | **(55,377)** | **(305)** | **18,888** | **103,786** |
| **Movements in reserves during 2018/19** | | | | | | | | | | | | |
| Total comprehensive income and expenditure | 38,730 | - | 38,730 | - | - | 38,730 | - | - | 7,866 | - | 7,866 | 46,596 |
| De-recognition of Ring & Ride vehicles under IFRIC 4 | - | - | - | - | - | - | - | (1,555) | - | - | (1,555) | (1,555) |
| Adjustments between accounting basis and funding basis under regulations (note 5b) | (24,548) | 93 | (24,455) | - | - | (24,455) | (211) | 30,287 | (5,559) | (62) | 24,455 | - |
| **Increase or (decrease) in 2018/19 before transfer to earmarked reserves** | **14,182** | **93** | **14,275** | **-** | **-** | **14,275** | **(211)** | **28,732** | **2,307** | **(62)** | **30,766** | **45,041** |
| Transfers to/(from) earmarked reserves | (14,193) | 14,193 | - | - | - | - | - | - | - | - | - | - |
| **Balance at 31 March 2019 carried forward** | **2,284** | **96,642** | **98,926** | **247** | **-** | **99,173** | **6,742** | **96,349** | **(53,070)** | **(367)** | **49,654** | **148,827** |
| **Movements in reserves during 2019/20** | | | | | | | | | | | | |
| Total comprehensive income and expenditure | 33,507 | - | 33,507 | - | - | 33,507 | - | - | 20,168 | - | 20,168 | 53,675 |
| Adjustments between accounting basis and funding basis under regulations (note 5b) | 3,588 | 16,173 | 19,761 | - | - | 19,761 | (211) | (12,421) | (7,000) | (129) | (19,761) | - |
| **Increase or (decrease) in 2019/20 before transfer to earmarked reserves** | **37,095** | **16,173** | **53,268** | **-** | **-** | **53,268** | **(211)** | **(12,421)** | **13,168** | **(129)** | **407** | **53,675** |
| Transfers to/(from) earmarked reserves | (37,077) | 37,077 | - | - | - | - | - | - | - | - | - | - |
| **Balance at 31 March 2020 carried forward** | **2,302** | **149,892** | **152,194** | **247** | **-** | **152,441** | **6,531** | **83,928** | **(39,902)** | **(496)** | **50,061** | **202,502** |

# BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority and the Group. The net assets (assets less liabilities) are matched by the reserves held by the Authority and the Group. 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 Authority and the Group is not able to use for the provision of services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) and reserves that hold timing differences in capital investment (the Capital Adjustment Account).

| | | **31 March 2020** | | **31 March 2019** | |
|---|---|---|---|---|---|
| | | **Authority** | **Group** | **Authority** | **Group** |
| | Notes | £'000 | £'000 | £'000 | £'000 |
| Property, plant and equipment | 17 | 410,886 | 411,244 | 341,392 | 341,586 |
| Long-term investments | 18 | 5,093 | 5,093 | 6,940 | 6,940 |
| Long-term debtors | | 241 | 241 | - | - |
| **Long-term assets** | | **416,220** | **416,578** | **348,332** | **348,526** |
| Short-term investments | 18 | 7,995 | 7,995 | 20,999 | 20,999 |
| Inventories | 19 | 12,424 | 13,253 | - | 560 |
| Short-term debtors | 20 | 43,103 | 47,066 | 36,330 | 36,895 |
| Cash and cash equivalents | 21 | 78,793 | 79,546 | 28,732 | 29,124 |
| **Current assets** | | **142,315** | **147,860** | **86,061** | **87,578** |
| Short-term borrowing | 22 | (7,024) | (7,024) | (7,136) | (7,136) |
| Short-term creditors | 23 | (73,385) | (75,953) | (57,163) | (58,874) |
| Provisions | 24 | (933) | (933) | (2,817) | (2,817) |
| Grants receipts in advance - revenue | 13 | (8,850) | (8,850) | (12,623) | (12,623) |
| Transferred debt | 25 | (833) | (833) | (757) | (757) |
| **Current liabilities** | | **(91,025)** | **(93,593)** | **(80,496)** | **(82,207)** |
| **Net current assets/(liabilities)** | | **51,290** | **54,267** | **5,565** | **5,371** |
| Long-term borrowing | 22 | (118,432) | (118,432) | (123,771) | (123,771) |
| Provisions | 24 | (1,810) | (1,810) | (1,000) | (1,000) |
| Grants receipts in advance - capital | 13 | (102,604) | (102,604) | (22,758) | (22,758) |
| Transferred debt | 25 | (5,595) | (5,595) | (6,428) | (6,428) |
| Net pension liability | 29 | (39,902) | (39,902) | (51,113) | (51,113) |
| **Long-term liabilities** | | **(268,343)** | **(268,343)** | **(205,070)** | **(205,070)** |
| **Net assets/(liabilities)** | | **199,167** | **202,502** | **148,827** | **148,827** |
| General Fund Balance | 26 | 2,302 | 2,302 | 2,284 | 2,284 |
| Earmarked Reserves | 26 | 146,557 | 149,892 | 96,642 | 96,642 |
| Capital Receipts Reserve | 26 | 247 | 247 | 247 | 247 |
| Profit and Loss Reserve | 26 | - | - | - | - |
| **Usable reserves** | | **149,106** | **152,441** | **99,173** | **99,173** |
| Revaluation Reserve | 27 | 6,531 | 6,531 | 6,742 | 6,742 |
| Capital Adjustment Account | 27 | 83,928 | 83,928 | 96,349 | 96,349 |
| Pensions Reserve | 27 | (39,902) | (39,902) | (53,070) | (53,070) |
| Accumulated Absences Account | 27 | (496) | (496) | (367) | (367) |
| **Unusable reserves** | | **50,061** | **50,061** | **49,654** | **49,654** |
| **Total reserves** | | **199,167** | **202,502** | **148,827** | **148,827** |

This financial report replaces the unaudited financial report certified by Linda Horne on 18 May 2020. They were approved for issue by the Audit, Risk and Assurance Committee on 14 July 2020. Events after the Balance Sheet date have been considered up to the date of approval.

# CASHFLOW STATEMENT

The Cashflow Statement shows the changes in cash and cash equivalents of the Authority and the Group during the reporting period. The statement shows how the Authority and the Group generate and use 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 Authority and the Group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority and the Group's future service delivery.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Authority | Group | Authority | Group |
| | £'000 | £'000 | £'000 | £'000 |
| **Net (deficit)/surplus on the provision of services** | 30,172 | 33,507 | 38,730 | 38,730 |
| **Adjustments to net surplus or deficit on the provision of services for non-cash movements** | | | | |
| Depreciation and impairment of non-current assets | 18,607 | 18,750 | 13,487 | 13,584 |
| Revaluation increase | - | - | (447) | (447) |
| Net amounts of non-current assets written off on disposal | 325 | 325 | 298 | 298 |
| Non-current assets transferred to provision of services | 139 | 139 | - | - |
| Change in pensions liability (note 28) | 8,957 | 8,957 | 8,766 | 8,766 |
| (Increase)/decrease in long-term debtors | (241) | (241) | - | - |
| (Increase)/decrease in short-term debtors | (6,773) | (10,171) | (4,370) | (4,935) |
| (Increase)/decrease in inventories | (12,424) | (12,693) | - | (560) |
| (Decrease)/increase in short-term creditors | 16,222 | 17,079 | 16,150 | 17,861 |
| (Decrease)/increase in provisions | (1,074) | (1,074) | (2,731) | (2,731) |
| Net interest payable | 4,321 | 4,306 | 5,791 | 5,789 |
| Interest paid | (6,713) | (6,713) | (7,930) | (7,930) |
| Interest received | 2,262 | 2,277 | 1,703 | 1,705 |
| **Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities** | | | | |
| Capital grants received | (125,266) | (125,266) | (100,442) | (100,442) |
| Capital grants paid | 35,274 | 35,274 | 34,125 | 34,125 |
| **Net cash flows from operating activities** | **(36,212)** | **(35,544)** | **3,130** | **3,813** |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | (88,565) | (88,872) | (61,563) | (61,854) |
| Capital grants received for the purchase of property, plant and equipment and inventories | 89,992 | 89,992 | 66,317 | 66,317 |
| Increase/(decrease) in short-term and long-term investments | 14,851 | 14,851 | (16,939) | (16,939) |
| **Net cash flows from investing activities** | **16,278** | **15,971** | **(12,185)** | **(12,476)** |
| **Financing activities** | | | | |
| Increase/(decrease) in grants receipts in advance | 76,073 | 76,073 | 23,538 | 23,538 |
| Repayment of loans | (5,321) | (5,321) | (23,318) | (23,318) |
| Transferred debt - repayment of principal | (757) | (757) | (688) | (688) |
| **Net cash flows from financing activities** | **69,995** | **69,995** | **(468)** | **(468)** |
| **Net increase or decrease in cash and cash equivalents** | **50,061** | **50,422** | **(9,523)** | **(9,131)** |
| Cash and cash equivalents at 1 April | 28,732 | 29,124 | 38,255 | 38,255 |
| **Cash and cash equivalents at 31 March (note 20)** | **78,793** | **79,546** | **28,732** | **29,124** |

## Notes Index

| Number | Description |
|---|---|
| 1 | Basis of preparation |
| 2 | Significant accounting policies |
| 3 | Critical accounting judgements, estimates and assumptions |
| 4 | Accounting standards issued but not yet adopted |
| 5 | Expenditure and Funding Analysis |
| 6 | Expenditure and income analysed by nature |
| 7 | Transport services |
| 8 | Combined Authority other services |
| 9 | Investment programme |
| 10 | Mayor's office |
| 11 | Other operating expenditure |
| 12 | Financing and investment income and expenditure |
| 13 | Government and other grant income |
| 14 | Officers’ remuneration |
| 15 | Members' allowances |
| 16 | External audit costs |
| 17 | Property, plant and equipment |
| 18 | Investments |
| 19 | Inventories |
| 20 | Short-term debtors |
| 21 | Cash and cash equivalents |
| 22 | Borrowing |
| 23 | Short-term creditors |
| 24 | Provisions |
| 25 | Transferred debt |
| 26 | Usable reserves |
| 27 | Unusable reserves |
| 28 | Capital expenditure and capital financing |
| 29 | Pension schemes |
| 30 | Financial risk management |
| 31 | Financial instruments |
| 32 | Operating leases |
| 33 | Reconciliation of liabilities arising from financing activities |
| 34 | Contingent liabilities and guarantees |
| 35 | Related party disclosures |
| 36 | Events after the reporting period |

## 1. Basis of preparation

**a) General principles**

The Statement of Accounts summarises the Authority and the Group's transactions for the 2019/20 financial year and the position as at 31 March 2020. The 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 2019/20 (the Code), supported by International Financial Reporting Standards (IFRS).

The Group financial statements have been prepared in accordance with the Code.

**b) Basis of preparation**

**i) Authority Accounts**

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 are accounted for on an accruals basis (recognised in the period to which they relate) rather than when cash payments are made or received.

**ii) Group Accounts**

The Code requires local authorities with, in aggregate, material interests in subsidiary and associated companies and joint ventures, to prepare group financial statements.

The Group's financial statements have been prepared using uniform accounting policies and on a historical cost basis modified by the revaluation of certain categories of non-current assets in accordance with the Code and incorporate the financial statements of the Authority and its subsidiaries as at 31 March 2020.

The accounting policies of the subsidiaries have been aligned with the policies of the Authority, for the purposes of Group accounts, where materially different.

**c) Going concern**

The accounts of the Authority and the Group have been prepared on a going concern basis as it is considered by the Mayor that their activities will continue in operational existence for the foreseeable future by meeting their liabilities as they fall due for payment.

## 2. Significant accounting policies

**a) Consolidation**

The accounts of Midlands Development Capital Limited, Midland Metro (Two) Limited, Network West Midlands Limited and West Midlands Development Capital Limited which are subsidiaries of the Authority; and its associate, West Midlands Rail Limited have not been consolidated with those of the Authority because the companies are either dormant and do not hold any assets or liabilities or are not material (see note 18 on investments).

The accounts of Midland Metro Limited and WM5G Limited have been consolidated into the group accounts on a line-by-line basis.

**b) Taxation**

**Corporation, income and capital gains tax**

**Authority**

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

**Subsidiaries**
Corporation tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Comprehensive Income and Expenditure Statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except as otherwise indicated. The recognition of deferred tax assets is limited to the extent that it is probably that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

**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 Authority and the Group 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 arising from ticket sales is recognised when the services are transferred to the service recipient in accordance with the performance obligations in the contract.

**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 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 Capital Adjustment 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.

- As part of its policy of improving and co-ordinating public transport within the area, the Authority meets the cost of upgrading 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 Authority makes payments of capital grants and contributions to Constituent Authorities and other organisations carrying out economic development and regeneration functions on behalf of the 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**

**Defined Benefit Pension Scheme**

Employees of the 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 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 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.

**Defined Contribution Pension Scheme**

Midland Metro Limited and WM5G Limited operate a defined contribution pension plan for their employees. A defined contribution plan is a pension plan under the company pays fixed contributions into a separate entity. Once the contributions have been paid, the company has no further payment obligations.

The contributions are recognised as an expense in the Comprehensive Income and Expenditure Statement when they fall due. Amounts not paid are shown in creditors as a liability in the Balance Sheet. The assets of the plan are held separately from the company in independently administered funds.

**g) Financial assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI)

The Authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest.

The financial assets include investments, long-term debtors, trade debtors and cash and cash equivalents.

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 Authority and the Group'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.

**Financial assets measured at amortised cost**
Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority and the Group become a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority and the Group, this means that the amount presented in the Balance Sheet is the outstanding principal amount (plus accrued interest) and interest credited to the CIES is the amount receivable for the year.

**Expected credit loss model**
The Authority and the Group recognise expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade debtors held by the Authority and the Group.

Impairment losses are calculated to reflect the expectation that the future cash flow might not take place because the borrower could default on their obligations. Credit risk plays a crucial part is assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Authority has a Collective Investment Fund portfolio which loans to property developers within the Authority geography. Loss allowances for these loans are assessed on an individual basis.

**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 fair value. Subsequent to initial recognition loans and borrowings are measured at amortised cost using the effective interest method. Annual charges for interest payable are made to the Comprehensive Income and Expenditure Statement based on the carrying value of the liability multiplied by the effective rate of interest for the instrument.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Comprehensive Income and Expenditure Statement in the year they occur. Any premium or discount arising on restructuring of the loan portfolio is respectively deducted from or added to the amortised cost of the new or modified loan and charged to the Comprehensive Income and Expenditure Statement over the life of the loan.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movements in Reserves Statement. In 2019/20, no such transactions have occurred.

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 Authority and the Group 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.

All other assets are measured at current value. Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for current value as they have short useful lives and/or low values. Current 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 current 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 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 as identified in note 2 (j) 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) Inventories**
Inventories are included in the Balance Sheet at the lower of cost and net realisable value and comprise of assets acquired under the Land Fund pending completion of remediation works.

**Midland Metro Limited**
Inventories are included in the Balance Sheet at the lower of cost and net realisable value, on a "first in, first out" basis.

**k) Leases**
Leases in terms of which the Authority and the Group 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.

**l) Impairment**

**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.

**m) Provisions and contingent liabilities**
Provisions are recognised when the Authority and the Group 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 Authority and the Group 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 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.

**n) Minimum Revenue Provision**
Capital Finance Regulations require the 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 Authority prior to the start of the financial year. The approved MRP statement for the current year is:

- For capital expenditure incurred before 1 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.
- From 1 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.
- In relation to the Authority wider Devolution Investment Programme MRP will be charged over the 30 years to 2046/47 in order to repay all the Investment Plan borrowing.

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

**o) 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.

**p) Prior Period Adjustments and changes in accounting policies**
Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

## 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial report in conformity with the Code requires the 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 Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

<u>Group Boundaries</u>
The Authority has a number of interests in other entities which fall within the group boundary (see note 18). Midland Metro Limited and WM5G Limited are deemed to be material and are therefore consolidated into the group accounts.

<u>Going Concern</u>
Local authorities are required by the Code of Practice on Local Authority Accounting 2019/20 to prepare their accounts on a going concern basis, that is that the functions of the Authority will continue to operate for the foreseeable future, as it can only be discontinued under statutory prescription. This is despite the impact of COVID-19 on the financial sustainability of the Authority because the going concern basis and the rationale behind it remains unchanged.

**Estimates and assumptions**
The financial report contains 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 item in the Balance Sheet at 31 March 2020 for which there is a risk of material adjustment in the forthcoming financial year is as follows:

- Defined 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 fund's actuaries in their 2020 IAS 19 valuation report:

  - A 0.1% p.a. increase in the discount rate will reduce the pension fund liability by £5.069m.
  - A 0.1% p.a. decrease in the discount rate will increase the pension fund liability by £5.165m.
  - An increase of life expectancy at retirement by 1 year will increase the pension fund liability by £16.459m.
  - A decrease of life expectancy at retirement by 1 year will decrease the pension fund liability by £15.488m.
  - 0.1% p.a. increase in inflation will increase the pension fund liability by £4.832m.
  - 0.1% p.a. decrease in inflation will decrease the pension fund liability by £4.750m.

As a result of the impact of COVID-19 on the global financial markets, the valuation of the Pension Fund's investment properties is reported on the basis of material valuation uncertainty. The Authority's share of these assets is £16m.

## 4. Accounting Standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code.

The Code requires local authorities to disclose information relating to the impact of an accounting change that will be required by a new standard under the International Financial Reporting Standard (IFRS) that has been issued but not yet adopted by the Code. The accounting standards that are to be introduced in the 2019/20 CIPFA Code of Practice are:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

***Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures***

The amendments are effective for periods beginning on or after 1 January 2019 and they are:

i) Paragraph 14A has been added to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

ii) Paragraph 41 has been deleted.

***Annual Improvements to IFRS Standards 2015-2017 Cycle***

The following standards have been amended and are effective for periods beginning on or after 1 January 2019:

i) IFRS 3 Business Combinations – clarified that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

ii) IFRS 11 Joint Arrangements – clarified that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

iii) IAS 12 Income Taxes – clarified that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

iv) IAS 23 Borrowing Costs – clarified that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

***Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement***

The amendments are effective for periods beginning on or after 1 January 2019 and they are:

i) If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

ii) Amendments have been included to clarify the effect of plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Most of these standards will not be applicable to the Authority or the Group. For those standards that apply, they are not anticipated to have a material impact on the financial statements.

## 5. Expenditure and Funding Analysis - Authority

### (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 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 Authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/2020

| | As reported for resource management (notes 7 - 11) | Adjustments to arrive at amounts chargeable to the General Fund | | Net expenditure chargeable to the General Fund | Adjustments between funding and accounting basis (note 5b) | Net expenditure in the Comprehensive Income and Expenditure Statement |
|---|---|---|---|---|---|---|
| | | Reserves Transfer | Financing | | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Transport services (note 7) | 114,740 | (6,503) | (8,432) | 99,805 | 51,536 | 151,341 |
| Combined Authority other services (note 8) | 6,217 | (529) | - | 5,688 | (12,214) | (6,526) |
| Investment Programme (note 9) | 42,569 | (26,658) | (62) | 15,849 | 52,732 | 68,581 |
| Mayor's office (note 10) | - | (52) | - | (52) | - | (52) |
| **Cost of services** | **163,526** | **(33,742)** | **(8,494)** | **121,290** | **92,054** | **213,344** |
| Other operating expenditure | - | - | - | - | 325 | 325 |
| Financing and investment income and expenditure | (1,252) | - | 8,494 | 7,242 | 1,201 | 8,443 |
| Taxation and non-specific grant income and expenditure | (162,292) | - | - | (162,292) | (89,992) | (252,284) |
| **(Surplus) or deficit on provision of services** | **(18)** | **(33,742)** | **-** | **(33,760)** | **3,588** | **(30,172)** |

| | £'000 |
|---|---|
| Opening General Fund balance | (2,284) |
| Transfers to/from Earmarked Reserves | 33,742 |
| **Closing General Fund balance** | **(2,302)** |

2018/2019 (restated)

| | As reported for resource management (notes 7 - 11) | Adjustments to arrive at amounts chargeable to the General Fund | | Net expenditure chargeable to the General Fund | Adjustments between funding and accounting basis (note 5b) | Net expenditure in the Comprehensive Income and Expenditure Statement |
|---|---|---|---|---|---|---|
| | | Reserves Transfer | Financing | | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Transport services (note 7) | 114,779 | (4,741) | (7,853) | 102,185 | 37,048 | 139,233 |
| Combined Authority other services (note 8) | 5,515 | 420 | 1,187 | 7,122 | (1,012) | 6,110 |
| Investment Programme (note 9) | 41,593 | (10,095) | (1,348) | 30,150 | 4,169 | 34,319 |
| Mayor's office (note 10) | - | 223 | - | 223 | - | 223 |
| **Cost of services** | **161,887** | **(14,193)** | **(8,014)** | **139,680** | **40,205** | **179,885** |
| Other operating expenditure | - | - | - | - | 298 | 298 |
| Financing and investment income and expenditure | (823) | - | 8,014 | 7,191 | 1,266 | 8,457 |
| Taxation and non-specific grant income and expenditure | (161,053) | - | - | (161,053) | (66,317) | (227,370) |
| **(Surplus) or deficit on provision of services** | **11** | **(14,193)** | **-** | **(14,182)** | **(24,548)** | **(38,730)** |

| | £'000 |
|---|---|
| Opening General Fund balance | (2,295) |
| Transfers to/from Earmarked Reserves | 14,193 |
| **Closing General Fund balance** | **(2,284)** |

**(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 2019/20**

| | Adjustments for capital purposes | | | | Pensions | Accumulated | Total |
|---|---|---|---|---|---|---|---|
| | Depreciation/ revaluation/ loss on disposal | REFCUS | Grants/ contributions | Financing | adjustments | Absences Account | adjustments |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Transport services | 18,607 | 32,968 | (2,894) | (2,008) | 4,734 | 129 | 51,536 |
| Combined Authority other services | - | - | (13,279) | - | 1,065 | - | (12,214) |
| Investment Programme | - | 60,890 | - | (8,158) | - | - | 52,732 |
| Mayor's office | - | - | - | - | - | - | - |
| **Net cost of services** | **18,607** | **93,858** | **(16,173)** | **(10,166)** | **5,799** | **129** | **92,054** |
| Other operating expenditure | 325 | - | - | - | - | - | 325 |
| Financing and investment income and expenditure | - | - | - | - | 1,201 | - | 1,201 |
| Taxation and non-specific grant income and expenditure | - | - | (89,992) | - | - | - | (89,992) |
| **(Surplus) or deficit on provision of services** | **18,932** | **93,858** | **(106,165)** | **(10,166)** | **7,000** | **129** | **3,588** |

The methodology for allocating pensions adjustments between services reflects the underlying activity. Prior year comparatives have been adjusted to allocate £0.638m to Combined Authority other services to ensure consistency in the treatment across both years i.e. 2018/19 and 2019/20.

**Comparatives for 2018/19 (restated)**

| | Adjustments for capital purposes | | | | Pensions | Accumulated | Total |
|---|---|---|---|---|---|---|---|
| | Depreciation/ revaluation/ loss on disposal | REFCUS | Grants/ contributions | Financing | adjustments | Absences Account | adjustments |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Transport services | 13,040 | 22,253 | 1,557 | (3,519) | 3,655 | 62 | 37,048 |
| Combined Authority other services | - | - | (1,650) | - | 638 | - | (1,012) |
| Investment Programme | - | 31,778 | - | (27,609) | - | - | 4,169 |
| Mayor's office | - | - | - | - | - | - | - |
| **Net cost of services** | **13,040** | **54,031** | **(93)** | **(31,128)** | **4,293** | **62** | **40,205** |
| Other operating expenditure | 298 | - | - | - | - | - | 298 |
| Financing and investment income and expenditure | - | - | - | - | 1,266 | - | 1,266 |
| Taxation and non-specific grant income and expenditure | - | - | (66,317) | - | - | - | (66,317) |
| **(Surplus) or deficit on provision of services** | **13,338** | **54,031** | **(66,410)** | **(31,128)** | **5,559** | **62** | **(24,548)** |

**Depreciation** - charges for depreciation of non-current assets, revaluation 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 services lines as it is chargeable to Cost of Services under proper accounting practices. Also included within REFCUS are amounts written off to Cost of Services in respect of capital development schemes.

**Grants/contributions** - revenue grants 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 and payable 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 transport services represents the removal of the employer contributions made by the 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.

**Accumulated absences account** – the adjustment for the removal of the accrued element of short-term accumulating compensated absences (for example holiday pay) to the salaries actually payable in the financial year in accordance with relevant statutory provisions that allow authorities to adjust the effect of accounting for benefits on the General Fund in the Movement in Reserves Statement, via the use of an Accumulated Absences Account.

## 6. Expenditure and income analysed by nature

The Authority's expenditure and income is analysed as follows:

| | Authority | |
|---|---|---|
| | **2019/20** | **2018/19** |
| | £'000 | £'000 |
| **Expenditure** | | |
| Employee benefits expenses | 25,247 | 21,422 |
| Other service expenses | 194,386 | 117,609 |
| Pension | 7,800 | 6,359 |
| Depreciation, amortisation and impairment | 18,607 | 13,040 |
| REFCUS | 93,858 | 54,031 |
| Loss on disposal of non-current assets | 325 | 298 |
| Interest payments | 9,504 | 8,894 |
| | 349,727 | 221,653 |
| **Income** | | |
| Fees and charges and other service income | (15,338) | (15,495) |
| Government revenue grants and contributions | (146,515) | (52,315) |
| Local Authority business rates growth and contributions | (11,072) | (9,833) |
| Levies | (114,720) | (114,720) |
| Capital grants and contributions (net of payments) | (89,992) | (66,317) |
| Interest and investment income | (2,262) | (1,703) |
| | (379,899) | (260,383) |
| **Surplus on provision of services** | **(30,172)** | **(38,730)** |

## 7. Transport services

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

| Analysis for 2019/20 | Authority | | |
|---|---|---|---|
| | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| Concessions | 60,437 | (88) | 60,349 |
| Bus Services | 30,733 | (9,333) | 21,400 |
| Rail and Metro Services | 9,585 | (5,725) | 3,860 |
| Integration | 8,286 | (2,021) | 6,265 |
| Network Resilience | 1,324 | (36) | 1,288 |
| Business Support Costs | 3,878 | (111) | 3,767 |
| Policy and Strategy and Elected Member Services | 3,172 | (683) | 2,489 |
| LSTF/Midlands Connect Programmes | 6,527 | (6,527) | - |
| Finance Charges | 11,463 | - | 11,463 |
| Reserves transfer - approved contribution to 2020-21 budget | 3,859 | - | 3,859 |
| **As reported to management (note 5)** | **139,264** | **(24,524)** | **114,740** |
| Adjustments to arrive at amounts chargeable to the General Fund | (14,935) | - | (14,935) |
| Adjustments between funding and accounting basis (note 5b) | 54,430 | (2,894) | 51,536 |
| **Per Comprehensive Income and Expenditure Statement** | **178,759** | **(27,418)** | **151,341** |

| Comparatives for 2018/19 | Authority | | |
|---|---|---|---|
| | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| Concessions | 63,668 | (131) | 63,537 |
| Bus Services | 29,605 | (7,400) | 22,205 |
| Rail and Metro Services | 10,127 | (6,405) | 3,722 |
| Integration | 8,330 | (2,472) | 5,858 |
| Network Resilience | 893 | (32) | 861 |
| Business Support Costs | 3,416 | (93) | 3,323 |
| Policy and Strategy and Elected Member Services | 3,097 | (583) | 2,514 |
| LSTF/Midlands Connect/BBAF Programmes | 8,716 | (8,716) | - |
| Finance Charges | 12,759 | - | 12,759 |
| **As reported to management (note 5)** | **140,611** | **(25,832)** | **114,779** |
| Adjustments to arrive at amounts chargeable to the General Fund | (12,594) | - | (12,594) |
| Adjustments between funding and accounting basis (note 5b) | 35,491 | 1,557 | 37,048 |
| **Per Comprehensive Income and Expenditure Statement** | **163,508** | **(24,275)** | **139,233** |

Explanation for the major movements can be found in section 7 of the Narrative Report.

The 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 scheme which allows holders of tickets to travel on bus, rail and tram services within the West Midlands**.** The nBus & nBus/Metro schemes are ticketing schemes covering majority of bus services within the West Midlands and the Midland Metro (tram).

The Authority receives revenues from ticket sales which are then pooled and distributed to operators net of commission based on passenger journeys. Net amounts to operators during the year amounted to £26.2m (2019: £29.5m).

## 8. Combined Authority other services

During the year, the line items were amended to reflect how the financial performance is managed and reported. The comparatives have been reclassed according to these new line items.

| **Analysis for 2019/20** | | **Authority** | |
|---|---|---|---|
| | **Gross Expenditure** | **Gross Income** | **Net Expenditure** |
| | £'000 | £'000 | £'000 |
| Economy and Innovation | 1,760 | (768) | 992 |
| Environment and Energy | 255 | (76) | 179 |
| Culture and Digital | 438 | (342) | 96 |
| Public Service Reform | 466 | (49) | 417 |
| Wellbeing | 2,141 | (1,595) | 546 |
| Housing and Land | 2,071 | (2,071) | - |
| Inclusive Communities | 72 | (68) | 4 |
| Skills and Productivity | 79,362 | (78,883) | 479 |
| Leadership and Corporate Support | 2,984 | - | 2,984 |
| Reserves transfer - approved contribution to 2020-21 budget | 520 | - | 520 |
| **As reported to management (note 5)** | **90,069** | **(83,852)** | **6,217** |
| Adjustments to arrive at amounts chargeable to the General Fund | (529) | - | (529) |
| Adjustments between funding and accounting basis (note 5b) | 1,065 | (13,279) | (12,214) |
| **Per Comprehensive Income and Expenditure Statement** | **90,605** | **(97,131)** | **(6,526)** |

| **Comparatives for 2018/19** | | **Authority** | |
|---|---|---|---|
| | **Gross Expenditure** | **Gross Income** | **Net Expenditure** |
| | £'000 | £'000 | £'000 |
| Economy and Innovation | 1,653 | (579) | 1,074 |
| Environment and Energy | 150 | - | 150 |
| Public Service Reform | 638 | (159) | 479 |
| Wellbeing | 818 | (433) | 385 |
| Housing and Land | 1,142 | (999) | 143 |
| Skills and Productivity | 2,035 | (1,571) | 464 |
| Leadership and Corporate Support | 2,861 | (41) | 2,820 |
| 5G | 2,200 | (2,200) | - |
| **As reported to management (note 5)** | **11,497** | **(5,982)** | **5,515** |
| Adjustments to arrive at amounts chargeable to the General Fund | 420 | 1,187 | 1,607 |
| Adjustments between funding and accounting basis (note 5b) | 638 | (1,650) | (1,012) |
| **Per Comprehensive Income and Expenditure Statement** | **12,555** | **(6,445)** | **6,110** |

Amounts reported for Skills and Productivity included the Adult Education Budget are as follows:

| | | **Gross Expenditure** | **Gross Income** | **Net Expenditure** |
|---|---|---|---|---|
| | | £'000 | £'000 | £'000 |
| Adult Education Budget | **2019/20** | 71,478 | (71,515) | (37) |
| | 2018/19 | - | - | - |

Explanation for the major movements can be found in section 7 of the Narrative Report.

## 9. Investment programme

| Analysis for 2019/20 | Authority | | |
|---|---|---|---|
| | Gross Expenditure | Gross Income | Net Expenditure |
| | £'000 | £'000 | £'000 |
| Revenue costs of project and programme delivery | 5,374 | - | 5,374 |
| Programme resource | 2,318 | - | 2,318 |
| Investment programme financing costs | 36,107 | - | 36,107 |
| Interest income | - | (1,230) | (1,230) |
| **As reported to management (note 5)** | **43,799** | **(1,230)** | **42,569** |
| Adjustments to arrive at amounts chargeable to the General Fund | (27,950) | 1,230 | (26,720) |
| Adjustments between funding and accounting basis (note 5b) | 52,732 | - | 52,732 |
| **Per Comprehensive Income and Expenditure Statement** | **68,581** | **-** | **68,581** |

| Comparatives for 2018/19 | Authority | | |
|---|---|---|---|
| | Gross Expenditure | Gross Income | Net Expenditure |
| | £'000 | £'000 | £'000 |
| Revenue costs of project and programme delivery | 2,035 | - | 2,035 |
| Programme resource | 1,694 | - | 1,694 |
| Investment programme financing costs | 39,103 | - | 39,103 |
| Interest income | - | (1,239) | (1,239) |
| **As reported to management (note 5)** | **42,832** | **(1,239)** | **41,593** |
| Adjustments to arrive at amounts chargeable to the General Fund | (12,682) | 1,239 | (11,443) |
| Adjustments between funding and accounting basis (note 5b) | 4,169 | - | 4,169 |
| **Per Comprehensive Income and Expenditure Statement** | **34,319** | **-** | **34,319** |

The methodology of analysing between categories as reported to management has changed this year to better reflect the underlying activity. Consequently, prior year comparatives have been adjusted accordingly to ensure consistency across both years i.e. in 2018/19 and 2019/20. The amounts as reported to management remain unchanged.

## 10. Mayor's office

| Analysis for 2019/20 | Authority | | |
|---|---|---|---|
| | Gross Expenditure | Gross Income | Net Expenditure |
| | £'000 | £'000 | £'000 |
| Staff | 676 | - | 676 |
| Premises and services | 57 | - | 57 |
| Promotions, information and initiatives | 2 | - | 2 |
| Travel and subsistence | 17 | - | 17 |
| Grants and other contributions | - | (804) | (804) |
| Use of reserves | 52 | - | 52 |
| **As reported to management (note 5)** | **804** | **(804)** | **-** |
| Adjustments to arrive at amounts chargeable to the General Fund | (52) | - | (52) |
| Adjustments between funding and accounting basis (note 5b) | - | - | - |
| **Per Comprehensive Income and Expenditure Statement** | **752** | **(804)** | **(52)** |

| **Comparatives for 2018/19** | | **Authority** | |
|---|---|---|---|
| | **Gross Expenditure** | **Gross Income** | **Net Expenditure** |
| | £'000 | £'000 | £'000 |
| Staff | 671 | - | 671 |
| Premises and services | 91 | - | 91 |
| Promotions, information and initiatives | 36 | (32) | 4 |
| Travel and subsistence | 15 | - | 15 |
| Grants and other contributions | - | (558) | (558) |
| Use of reserves | - | (223) | (223) |
| **As reported to management (note 5)** | **813** | **(813)** | **-** |
| Adjustments to arrive at amounts chargeable to the General Fund | - | 223 | 223 |
| Adjustments between funding and accounting basis (note 5b) | - | - | - |
| **Per Comprehensive Income and Expenditure Statement** | **813** | **(590)** | **223** |

## 11. Other operating expenditure

| | **Authority 2019/20** | **Group 2019/20** | **Authority 2018/19** | **Group 2018/19** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Loss on disposal of property, plant and equipment | 325 | 325 | 298 | 298 |
| **Total** | **325** | **325** | **298** | **298** |

The loss on disposal of property, plant and equipment relates to the ongoing replacement of bus shelters which have been funded by grants.

## 12. Financing and investment income and expenditure

| | **Authority 2019/20** | **Group 2019/20** | **Authority 2018/19** | **Group 2018/19** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Interest payable and similar charges on borrowings: | | | | |
| PWLB | 5,752 | 5,752 | 6,648 | 6,648 |
| Barclays | 402 | 402 | 403 | 403 |
| Interest payable on the former transferred debt | 429 | 429 | 443 | 443 |
| Impairment loss allowance (notes 18, 19 and 30) | 2,921 | 1,291 | 1,400 | 1,400 |
| Net interest on the net defined benefit liability (note 28) | 1,201 | 1,201 | 1,266 | 1,266 |
| | 10,705 | 9,075 | 10,160 | 10,160 |
| Interest receivable and similar income | (1,006) | (1,021) | (463) | (465) |
| Other investment income | (1,256) | (1,256) | (1,240) | (1,240) |
| **Total** | **8,443** | **6,798** | **8,457** | **8,455** |

Other investment income relates to the loan interest income from the Collective Investment Fund (see note 18).

Impairment loss allowance relates to potential losses recognised on the Collective Investment Fund and the loan to Midland Metro Limited, in accordance with the requirement of IFRS 9 Financial Instruments. The loss allowance includes consideration for the impact of COVID-19 (see notes 18 and 20).

## 13. Government and other grant income

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

| | Authority | |
|---|---|---|
| | **2019/20** | **2018/19** |
| | £'000 | £'000 |
| **Revenue grants and contributions credited to cost of services** | | |
| Adult Education Budget | 79,195 | 197 |
| Bus Service Operator Grant | 1,999 | 1,929 |
| Construction Skills | 11,480 | 719 |
| Housing Package | 1,806 | 890 |
| Mayoral Capacity Fund | 1,000 | 1,000 |
| Midlands Connect Programme | 7,274 | 7,258 |
| Other | 7,261 | 3,822 |
| **Total** | **110,015** | **15,815** |

| | Authority | |
|---|---|---|
| | **2019/20** | **2018/19** |
| | £'000 | £'000 |
| **Grants and contributions credited to taxation and non-specific grant income** | | |
| Transport levy from the West Midlands districts* | 114,720 | 114,720 |
| Gainshare contribution - MHCLG | 36,500 | 36,500 |
| Business rates growth | 6,003 | 4,764 |
| Constituent, non-constituent and observers membership fees and contributions* | 5,069 | 5,069 |
| Capital grants and contributions | 125,266 | 100,442 |
| Gross income | 287,558 | 261,495 |
| Capital grants paid | (35,274) | (34,125) |
| **Total** | **252,284** | **227,370** |

*An analysis of the transport levy and constituent and non-constituent member membership fees and contributions by district is shown in note 34 Related party disclosures.

The Authority receives grants from the DfT which it administers and passes onto district partners. This expenditure does not form part of the Authority's capital programme but is included within taxation and non-specific grant income and expenditure.

The 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. These are recognised in the Balance Sheet as grants receipts in advance until such time as the conditions are met. The balances at the year-end are shown overleaf:

| | Authority 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Grants received in advance - capital** | | |
| Clean Bus Technology | 1,764 | 5,428 |
| Future Mobility Zones | 18,265 | - |
| Local Transport Fund | 1,729 | 2,756 |
| Joint Air Quality | 1,133 | 3,168 |
| Land Fund | 41,286 | - |
| Local Authority Major Project | - | 7,801 |
| Local Growth Fund | 2,100 | 1,079 |
| Midlands Connect | 2,000 | 2,000 |
| Transforming Cities Fund | 28,674 | - |
| Other grants less than £2m | 5,653 | 526 |
| | **102,604** | **22,758** |
| **Grants received in advance - revenue** | | |
| Adult Education Budget | - | 109 |
| Bus Service Operator Grant | 627 | 913 |
| Construction Skills | - | 1,137 |
| Employment Support Pilot | 3,012 | 3,071 |
| Housing Package | 3,146 | 2,952 |
| Midlands Connect | 1,642 | 3,917 |
| Other | 423 | 524 |
| | **8,850** | **12,623** |

In light of the COVID-19 pandemic, grants and contributions are expected to continue to be receivable from the awarding body in accordance with the terms and conditions of the grant or funding agreement.

## 14. Officers' remuneration

The remuneration paid to the Authority's senior employees was as follows:

| | | Salary, fees and allowances £'000 | Pension contributions £'000 | Total Authority £'000 |
|---|---|---|---|---|
| **WMCA Staff** | | | | |
| Chief Executive | **2019/20** | 195 | 31 | 226 |
| | 2018/19 | 191 | 28 | 219 |
| Clerk to the WMCA and Monitoring Officer | **2019/20** | 94 | 15 | 109 |
| | 2018/19 | 92 | 13 | 105 |
| Director of Housing and Regeneration | **2019/20** | 114 | 18 | 132 |
| | 2018/19 | 112 | 16 | 128 |
| Director of Finance [1] | **2019/20** | - | - | - |
| | 2018/19 | 91 | 13 | 104 |
| Director of Investment and Commercial Activities [2] | **2019/20** | 111 | 17 | 128 |
| | 2018/19 | - | - | - |
| Director of Public Service Reform [3] | **2019/20** | 82 | 13 | 95 |
| | 2018/19 | 120 | 17 | 137 |
| Director of Productivity and Skills | **2019/20** | 126 | 20 | 146 |
| | 2018/19 | 118 | 17 | 135 |
| Director of Strategic Communications and Public Affairs [4] | **2019/20** | 115 | 18 | 133 |
| | 2018/19 | 50 | 7 | 57 |
| Director of Strategy | **2019/20** | 121 | 20 | 141 |
| | 2018/19 | 113 | 17 | 130 |
| Finance Director [1] | **2019/20** | 110 | 17 | 127 |
| | 2018/19 | 22 | 3 | 25 |
| Managing Director, Transport for West Midlands | **2019/20** | 133 | 21 | 154 |
| | 2018/19 | 125 | 18 | 143 |
| **Mayoral Team** | | | | |
| Mayor | **2019/20** | 79 | - | 79 |
| | 2018/19 | 79 | - | 79 |
| Deputy Mayor [5] | **2019/20** | - | - | - |
| | 2018/19 | - | - | - |
| Chief of Staff [6] | **2019/20** | 67 | 10 | 77 |
| | 2018/19 | 82 | 12 | 94 |

[1] Director of Finance resigned in December 2018 and an Interim Finance Director was appointed on a temporary basis until the appointment of a new Finance Director in June 2019. Therefore, the pay does not reflect a full year's salary.

[2] This is a new post and the Director of Investment and Commercial Activities was appointed in April 2019. Therefore, the pay does not reflect a full year's salary.

[3] Director of Public Service Reform resigned in November 2019. Therefore, the pay does not reflect a full year's salary. The title was renamed to Director of Inclusive Growth & Public Service Reform and this post was appointed in April 2020.

[4] The post was newly appointed in 2018/19, therefore the pay does not reflect a full year's salary.

[5] Deputy Mayor did not receive any remuneration from the Authority and no amount was re-charged from other District Authorities for his service during the period.

[6] Chief of Staff resigned in January 2020, therefore the pay does not reflect a full year's salary.

The Authority's other employees receiving more than £50,000 remuneration which includes exit packages for the year (excluding pension contributions) were paid the following amounts:

| | | Authority |
|---|---|---|
| | **2020** | **2019** |
| £50,000 - £54,999 | 31 | 35 |
| £55,000 - £59,999 | 28 | 17 |
| £60,000 - £64,999 | 5 | 14 |
| £65,000 - £69,999 | 16 | 8 |
| £70,000 - £74,999 | 3 | 2 |
| £75,000 - £79,999 | 6 | 2 |
| £80,000 - £84,999 | 1 | 4 |
| £85,000 - £89,999 | 6 | 1 |
| £90,000 - £94,999 | 1 | - |
| £95,000 - £99,999 | 2 | 2 |
| £100,000 - £104,999 | 2 | 2 |
| £105,000 - £109,999 | - | - |
| £110,000 - £114,999 | 1 | - |
| £115,000 - £119,999 | 1 | - |
| £120,000 - £134,999* | - | - |
| £140,000 - £144,999 | - | 1 |

* there were no employees within these bands

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.

| | Compulsory redundancies | | Total exit packages | | Total cost of packages in each band | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| **Cost band (including special payments)** | No. | No. | No. | No. | £'000 | £'000 |
| £0 - £20,000 | 4 | 16 | 4 | 16 | **29** | **173** |
| £20,001 - £40,000 | 3 | 4 | 3 | 4 | **78** | **112** |
| £40,001 - £60,000 | 1 | - | 1 | - | **49** | **-** |
| £60,001 - £80,000 | - | 2 | - | 2 | **-** | **153** |
| £80,001 - £100,000 | - | - | - | - | **-** | **-** |
| £100,001 + | - | 1 | - | 1 | **-** | **119** |
| | **8** | **23** | **8** | **23** | **156** | **557** |

## 15. Members' allowances

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| Allowances | 127 | 125 |
| Expenses | 3 | 5 |
| **Total** | **130** | **130** |

## 16. External audit costs

Charges relating to work undertaken by the external auditors:

| | Authority | Group | Authority | Group |
|---|---|---|---|---|
| | **2020** | **2020** | **2019** | **2019** |
| | £'000 | £'000 | £'000 | £'000 |
| Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year | 47 | 74 | 47 | 63 |
| Fees payable in respect of other services provided by external auditors during the year | - | 2 | - | - |
| **Total** | **47** | **76** | **47** | **63** |

## 17. 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.

Ring and Ride vehicles with a carrying value of £1.555m previously included in vehicles, plant and equipment in the Balance Sheet in accordance with IFRIC 4 were derecognised in 2018/19 as they no longer met the requirements of IFRIC 4.

| **Movements in 2019/20**<br>**Authority** | **Land and buildings** | **Vehicles, plant and equipment** | **Infra-structure assets** | **Assets under construction** | **Total Authority** |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or valuation** | | | | | |
| At 1 April 2019 | 3,559 | 37,155 | 346,199 | 128,520 | 515,433 |
| Additions - capital programme | - | 1,985 | 733 | 85,847 | 88,565 |
| Transfers | - | 325 | 87,054 | (87,379) | - |
| Transfers to provision of services | - | - | - | (139) | (139) |
| Depreciation reversed on revaluation | - | - | - | - | - |
| Disposals | - | - | (1,384) | - | (1,384) |
| **At 31 March 2020** | **3,559** | **39,465** | **432,602** | **126,849** | **602,475** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2019 | - | 24,733 | 149,308 | - | 174,041 |
| Charge for the year | 87 | 2,060 | 16,460 | - | 18,607 |
| Depreciation reversed on revaluation | - | - | - | - | - |
| Disposals | - | - | (1,059) | - | (1,059) |
| **At 31 March 2020** | **87** | **26,793** | **164,709** | **-** | **191,589** |
| **Net book value** | | | | | |
| At 31 March 2020 | 3,472 | 12,672 | 267,893 | 126,849 | 410,886 |
| At 31 March 2019 | 3,559 | 12,422 | 196,891 | 128,520 | 341,392 |

| **Group** | **Land and buildings** | **Vehicles, plant and equipment** | **Infra-structure assets** | **Assets under construction** | **Total Group** |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or valuation** | | | | | |
| At 1 April 2019 | 3,559 | 37,446 | 346,199 | 128,520 | 515,724 |
| Additions - capital programme | - | 1,985 | 733 | 85,847 | 88,565 |
| Additions - other | - | 307 | - | - | 307 |
| Transfers | - | 325 | 87,054 | (87,379) | - |
| Transfers to provision of services | - | - | - | (139) | (139) |
| Depreciation reversed on revaluation | - | - | - | - | - |
| Disposals | - | - | (1,384) | - | (1,384) |
| **At 31 March 2020** | **3,559** | **40,063** | **432,602** | **126,849** | **603,073** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2019 | - | 24,830 | 149,308 | - | 174,138 |
| Charge for the year | 87 | 2,203 | 16,460 | - | 18,750 |
| Depreciation reversed on revaluation | - | - | - | - | - |
| Disposals | - | - | (1,059) | - | (1,059) |
| **At 31 March 2020** | **87** | **27,033** | **164,709** | **-** | **191,829** |
| **Net book value** | | | | | |
| At 31 March 2020 | 3,472 | 13,030 | 267,893 | 126,849 | 411,244 |
| At 31 March 2019 | 3,559 | 12,616 | 196,891 | 128,520 | 341,586 |

| Comparative movements in 2018/19 Authority | Land and buildings £'000 | Vehicles, plant and equipment £'000 | Infra-structure assets £'000 | Assets under construction £'000 | Total Authority £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 April 2018 | 3,576 | 44,360 | 346,559 | 68,755 | 463,250 |
| Additions - capital programme | - | 1,166 | 632 | 59,765 | 61,563 |
| Revaluation increase recognised in the provision of services | 447 | - | - | - | 447 |
| Depreciation reversed on revaluation | (464) | - | - | - | (464) |
| Disposals | - | - | (992) | - | (992) |
| Derecognition - Ring & Ride vehicles | - | (8,371) | - | - | (8,371) |
| **At 31 March 2019** | **3,559** | **37,155** | **346,199** | **128,520** | **515,433** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2018 | 391 | 29,753 | 138,384 | - | 168,528 |
| Charge for the year | 73 | 1,796 | 11,618 | - | 13,487 |
| Depreciation reversed on revaluation | (464) | - | - | - | (464) |
| Disposals | - | - | (694) | - | (694) |
| Derecognition - Ring & Ride vehicles | - | (6,816) | - | - | (6,816) |
| **At 31 March 2019** | **-** | **24,733** | **149,308** | **-** | **174,041** |
| **Net book value** | | | | | |
| At 31 March 2019 | 3,559 | 12,422 | 196,891 | 128,520 | 341,392 |
| At 31 March 2018 | 3,185 | 14,607 | 208,175 | 68,755 | 294,722 |

| Group | Land and buildings £'000 | Vehicles, plant and equipment £'000 | Infra-structure assets £'000 | Assets under construction £'000 | Total Group £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 April 2018 | 3,576 | 44,360 | 346,559 | 68,755 | 463,250 |
| Additions - capital programme | - | 1,166 | 632 | 59,765 | 61,563 |
| Additions - other | - | 291 | - | - | 291 |
| Revaluation increase recognised in the provision of services | 447 | - | - | - | 447 |
| Depreciation reversed on revaluation | (464) | - | - | - | (464) |
| Disposals | - | - | (992) | - | (992) |
| Derecognition - Ring & Ride vehicles | - | (8,371) | - | - | (8,371) |
| **At 31 March 2019** | **3,559** | **37,446** | **346,199** | **128,520** | **515,724** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2018 | 391 | 29,753 | 138,384 | - | 168,528 |
| Charge for the year | 73 | 1,893 | 11,618 | - | 13,584 |
| Depreciation reversed on revaluation | (464) | - | - | - | (464) |
| Disposals | - | - | (694) | - | (694) |
| Derecognition - Ring & Ride vehicles | - | (6,816) | - | - | (6,816) |
| **At 31 March 2019** | **-** | **24,830** | **149,308** | **-** | **174,138** |
| **Net book value** | | | | | |
| At 31 March 2019 | 3,559 | 12,616 | 196,891 | 128,520 | 341,586 |
| At 31 March 2018 | 3,185 | 14,607 | 208,175 | 68,755 | 294,722 |

## Revaluations

Land and buildings are revalued at least every five years at current value and a full valuation was carried out as at 31 March 2019. This valuation was carried out by Bruton Knowles in accordance with the Practice Statements in the Valuation Standards (The Red Book) published by The Royal Institution of Chartered Surveyors. Current 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.

| Authority | Land and buildings | Vehicles, plant and equipment | Infra-structure assets | Assets under construction | Total Authority |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Carried at historical cost | - | - | - | 139,273 | 139,273 |
| Carried at depreciated historical cost | - | 39,465 | 432,602 | - | 472,067 |
| Valued at current value as at: | | | | | |
| 31 March 2020 | - | - | - | - | - |
| 31 March 2019 | 3,559 | - | - | - | 3,559 |
| 31 March 2018 | - | - | - | - | - |
| 31 March 2017 | - | - | - | - | - |
| 31 March 2016 | - | - | - | - | - |
| **Total cost or valuation** | **3,559** | **39,465** | **432,602** | **139,273** | **614,899** |

## Capital commitments

At 31 March 2020, the Authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment and future years for £51.6m (2019: £7.5m). The major commitments are listed in the table below:

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| Longbridge Connectivity Package | 806 | 3,013 |
| Metro Third Generation Trams | 49,880 | - |
| Metro Catenary Free | 953 | 4,503 |
| | **51,639** | **7,516** |

## 18. Investments

| | Long-term | | Current | | Authority and Group Total | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Loans investments - Collective Investment Fund | 6,652 | 7,598 | 9,127 | 11,741 | 15,779 | 19,339 |
| Loss allowance | (1,559) | (658) | (1,132) | (742) | (2,691) | (1,400) |
| Loans investments - Collective Investment Fund | 5,093 | 6,940 | 7,995 | 10,999 | 13,088 | 17,939 |
| Investments in subsidiaries | - | - | - | - | - | - |
| Short-term deposits | - | - | - | 10,000 | - | 10,000 |
| **Total** | **5,093** | **6,940** | **7,995** | **20,999** | **13,088** | **27,939** |

The Collective Investment Fund is a fund of investments held by the Authority which provides loans to property developers to support the acceleration of commercial property developments within the West Midlands region. The Fund was originally managed by Birmingham City Council on behalf of the Authority and was transferred to the Authority in October 2018.

The loss allowance is assessed on an individual basis (see accounting policy - note 2 (g)) and recognised in the Comprehensive Income and Expenditure (see note 12). This loss allowance also includes potential losses for the impact of COVID-19.

The Authority has interests in the following entities which were incorporated in England.

| | Ownership | Share capital | Nature of business |
|---|---|---|---|
| Midlands Development Capital Limited | 100% | £100 | Dormant |
| Midland Metro Limited | 100% | £100 | Trading |
| Midland Metro (Two) Limited | 100% | £100 | Dormant |
| Network West Midlands Limited | 100% | £100 | Dormant |
| West Midlands Development Capital Limited | 100% | £100 | Trading |
| WM5G Limited | 100% | n/a - limited by guarantee | Trading |
| West Midlands Growth Company Limited | 5% | n/a - limited by guarantee | Trading |
| West Midlands Rail Limited | 50% | n/a - limited by guarantee | Trading |

Midlands Development Capital Limited was incorporated under the Companies Act 2006 as a private limited company on 27 March 2017.

Midland Metro Limited was incorporated under the Companies Act 2006 as a private limited company on 24 August 2017.

Midland Metro (Two) Limited was incorporated under the Companies Act 1985 as a private limited company on 16 March 1988. The company was dissolved on 10 March 2020.

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

West Midlands Development Capital Limited was incorporated under the Companies Act 2006 as a private limited company on 8 May 2017.

WM5G Limited was incorporated under the Companies Act 2006 as a private limited company (limited by guarantee) on 26 February 2019. The company started trading in April 2020.

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

## 19. Inventories

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Authority** | **Group** | **Authority** | **Group** |
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April | - | 560 | - | - |
| Purchases | 12,424 | 12,988 | - | 560 |
| Recognised as an expense in the year | - | (295) | - | - |
| **Balance at 31 March** | **12,424** | **13,253** | **-** | **560** |

## 20. Short-term debtors

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Authority** | **Group** | **Authority** | **Group** |
| | £'000 | £'000 | £'000 | £'000 |
| Loans to group undertakings | 1,630 | - | - | - |
| Loss allowance | (1,630) | - | - | - |
| Loans to group undertakings | - | - | - | - |
| Trade debtors and accrued income | 31,300 | 33,573 | 22,105 | 21,450 |
| Other debtors | 2,167 | 2,337 | 4,073 | 4,378 |
| Prepayments | 9,636 | 11,156 | 10,152 | 11,067 |
| **Total** | **43,103** | **47,066** | **36,330** | **36,895** |

Included within trade debtors and accrued income are monies owed in respect of grant funding claims, business rates growth and also monies owed from operators for ticketing. Prepayments consist of prepayments for concessions to operators and capital prepayments for the Midland Metro extension. Other debtors consist of amounts recoverable for VAT.

The loss allowance relates to potential losses recognised in the Comprehensive Income and Expenditure (see note 12) for the impact of COVID-19.

## 21. Cash and cash equivalents

| | | | Carrying amount | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | **Authority** | **Group** | **Authority** | **Group** |
| | £'000 | £'000 | £'000 | £'000 |
| Cash at bank and in hand | 343 | 546 | 82 | 474 |
| Short-term deposits | 78,450 | 79,000 | 28,650 | 28,650 |
| **Total** | **78,793** | **79,546** | **28,732** | **29,124** |

Daily cash balances are invested overnight. The balance at 31 March 2020 represents monies held on deposit as at 31 March 2020 to be repaid on the next available banking day. Interest is earned at the respective short-term deposit rates.

## 22. Borrowing

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| **Lender** | | |
| Public Works Loan Board (PWLB) | 113,778 | 119,099 |
| Barclays | 10,000 | 10,000 |
| Accrued interest payable | 1,678 | 1,808 |
| **Total** | **125,456** | **130,907** |

| | | |
|---|---|---|
| **Maturity** | | |
| Principal and accrued interest due within one year | 7,024 | 7,136 |
| 1 - 2 years | 354 | 5,340 |
| 2 - 5 years | 1,148 | 1,104 |
| 5 - 10 years | 12,237 | 2,152 |
| Over 10 years | 104,693 | 115,175 |
| Principle due after more than one year | 118,432 | 123,771 |
| **Total** | **125,456** | **130,907** |

The Group adopts a low risk treasury management approach seeking to maximise low interest loans when the opportunity arises. During the year, the Group did not undertake any new short-term borrowing (2019: nil). The amount of fixed rate debt is 100% (2019: 100%) with no variable rate debt (2019: nil).

Historically, the majority of Group borrowing has been undertaken through Public Works Loan Board (PWLB); which is essentially HM Treasury. In October 2019, PWLB increased the margin on its standard loans by 1% which was a policy decision aimed at slowing the pace of borrowing by Local Authorities. As such, the Authority continues to review all options to obtain competitively priced debt to fund its Capital programme.

Following the rate rise, the Group is able to access PWLB debt at 180 basis points above the UK Gilt rate. However, the Group was granted, through a competitive process, access to £100m of PWLB borrowing at the Governments Local Infrastructure Rate (Gilts + 60 basis points). The Group expects to begin calling this borrowing down during 2020/21.

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 and converted it into a fixed rate loan. No other terms or conditions of the loan were amended and the loan will still mature in June 2055.

## 23. Short-term creditors

| | | **2020** | | **2019** |
|---|---|---|---|---|
| | **Authority** | **Group** | **Authority** | **Group** |
| | £'000 | £'000 | £'000 | £'000 |
| Trade creditors and accruals | 69,727 | 71,998 | 53,868 | 55,298 |
| Taxes and social security | 711 | 908 | 620 | 801 |
| Payments received on account | 2,947 | 3,047 | 2,675 | 2,775 |
| | **73,385** | **75,953** | **57,163** | **58,874** |

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.

## 24. Provisions

| **Current year movements** | **Transport development** | **Buildings maintenance** | **Rail services/ insurance** | **Total Authority and Group** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April 2019 | 1,259 | 1,000 | 1,558 | 3,817 |
| Additional provision | - | - | 184 | 184 |
| Release of provision | - | - | (917) | (917) |
| Amounts used | (326) | - | (15) | (341) |
| **Balance at 31 March 2020** | **933** | **1,000** | **810** | **2,743** |
| Current | 933 | - | - | 933 |
| Long-term | - | 1,000 | 810 | 1,810 |
| **Total** | **933** | **1,000** | **810** | **2,743** |

| **Prior year comparatives** | **Transport development** | **Buildings maintenance** | **Rail services/ insurance** | **Total Authority and Group** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April 2018 | 3,742 | 1,414 | 1,392 | 6,548 |
| Additional provision | - | - | 180 | 180 |
| Amounts used | (2,483) | (414) | (14) | (2,911) |
| **Balance at 31 March 2019** | **1,259** | **1,000** | **1,558** | **3,817** |
| Current | 1,259 | - | 1,558 | 2,817 |
| Long-term | - | 1,000 | - | 1,000 |
| **Total** | **1,259** | **1,000** | **1,558** | **3,817** |

**Transport development**
This has been provided to meet the Authority's present obligations for the West Midlands regions' transport developments.

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

**Rail services/insurance**
This has been provided in order to meet estimated 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.

## 25. 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.

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| Balance at 1 April | 7,185 | 7,873 |
| Repayment in the year | (757) | (688) |
| **Balance at 31 March** | **6,428** | **7,185** |
| Due within one year | 833 | 757 |
| Due over one year | 5,595 | 6,428 |
| **Total** | **6,428** | **7,185** |

## 26. 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 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 Authority** | **Earmarked general fund** | **Investment programme funding reserve** | **Unapplied revenue grants** | **Total** |
|---|---|---|---|---|
| | **Authority** | **Authority** | **Authority** | **Authority** |
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April 2019 | 20,172 | 73,848 | 2,622 | 96,642 |
| Receivable in year | - | - | 95,449 | 95,449 |
| Utilised in year | - | - | (79,276) | (79,276) |
| Net unapplied in year | | - | 16,173 | 16,173 |
| Released in year to general reserves | (7,818) | - | - | (7,818) |
| Transfers in year from general reserves | 14,283 | 27,277 | - | 41,560 |
| Net transfer (to)/from general reserves | 6,465 | 27,277 | - | 33,742 |
| **Balance at 31 March 2020** | **26,637** | **101,125** | **18,795** | **146,557** |

| Group | Earmarked general fund | Investment programme funding reserve | Unapplied revenue grants | Total Group |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April 2019 | 20,172 | 73,848 | 2,622 | 96,642 |
| Receivable in year | - | - | 95,449 | 95,449 |
| Utilised in year | - | - | (79,276) | (79,276) |
| Net unapplied in year | - | - | 16,173 | 16,173 |
| Released in year to general reserves | (7,818) | - | - | (7,818) |
| Transfers in year from general reserves | 15,913 | 28,982 | - | 44,895 |
| Net transfer (to)/from general reserves | 8,095 | 28,982 | - | 37,077 |
| **Balance at 31 March 2020** | **28,267** | **102,830** | **18,795** | **149,892** |

| Prior year comparatives<br>Authority and Group | Earmarked general fund | Investment programme funding reserve | Unapplied revenue grants | Total Authority and Group |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April 2018 | 14,889 | 64,938 | 2,529 | 82,356 |
| Receivable in year | - | - | 2,974 | 2,974 |
| Utilised in year | - | - | (2,881) | (2,881) |
| Net unapplied in year | - | - | 93 | 93 |
| Released in year to general reserves | (4,720) | - | - | (4,720) |
| Transfers in year from general reserves | 10,003 | 8,910 | - | 18,913 |
| Net transfer (to)/from general reserves | 5,283 | 8,910 | - | 14,193 |
| **Balance at 31 March 2019** | **20,172** | **73,848** | **2,622** | **96,642** |

### Earmarked general fund
This reserve contains contributions in the year to provide funding to back transport capital programme commitments.

### Investment programme funding reserve
This reserve (renamed from Gainshare contribution) contains the Gainshare contribution received from the MHCLG (previously known as DCLG) along with other income sources relating to the Investment Programme including Business Rates Growth 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 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 Reserve
The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

| | Authority and Group | |
|---|---|---|
| | 2020 | 2019 |
| | £'000 | £'000 |
| Opening balance at 1 April | 247 | 247 |
| Transfer to the Capital Receipts Reserve upon receipt of cash from loan repayments under Collective Investment Fund | 11,462 | 12,680 |
| Use of the Capital Receipts Reserve to finance capital expenditure | (11,462) | (12,680) |
| **Closing balance at 31 March** | **247** | **247** |

**Profit and Loss Reserve**
The Profit and Loss Reserve consolidates the in-year results for subsidiaries. This is kept separate from the General Fund given the specific statutory restrictions that apply to the General Fund.

## 27. 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.

| | Authority and Group | |
|---|---|---|
| | 2020 | 2019 |
| | £'000 | £'000 |
| Opening balance at 1 April | 6,742 | 6,953 |
| Difference between current value depreciation and historical cost | (211) | (211) |
| **Closing balance at 31 March** | **6,531** | **6,742** |

**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).

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| **Opening balance at 1 April** | 96,349 | 67,617 |
| **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 (note 17) | (18,607) | (13,487) |
| Revaluation increase recognised in the provision of services (note 17) | - | 447 |
| Adjusting amount written out of the Revaluation Reserve (note 27) | 211 | 211 |
| Loss on disposal of property, plant and equipment (note 11) | (325) | (298) |
| Non-current assets transferred to provision of services (note 17) | (139) | - |
| Revenue expenditure funded from capital under statute (note 28) | (93,719) | (54,031) |
| **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 (note 28) | 89,959 | 66,317 |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing in prior years | 33 | - |
| Statutory provision for the financing of capital investment charged against the General Fund (MRP - note 28) | 400 | 400 |
| Debt repayment charged against the General Fund (note 25) | 757 | 688 |
| Capital expenditure charged against the General Fund (note 28) | 1,683 | 2,431 |
| Capital expenditure funded by the Gainshare contribution (note 28) | 7,326 | 27,609 |
| Derecognition of Ring & Ride vehicles (note 17) | - | (1,555) |
| **Closing balance at 31 March** | **83,928** | **96,349** |

## 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 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.

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| Opening balance at 1 April | 53,070 | 55,377 |
| Remeasurements (liabilities and assets) (note 29) | (20,168) | (7,866) |
| 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 (note 29) | 9,072 | 8,828 |
| Employer's pension contributions payable in the year: | | |
| Current year (note 29) | (2,072) | (3,269) |
| **Closing balance at 31 March** | **39,902** | **53,070** |

**Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, for example annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| Opening balance at 1 April | 367 | 305 |
| Movement in the year | 129 | 62 |
| **Closing balance at 31 March** | **496** | **367** |

## 28. Capital expenditure and capital financing

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

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| **Directly delivered capital schemes** | | |
| Midland Metro | 79,318 | 64,021 |
| Rail infrastructure | 15,668 | 6,798 |
| Key Routes network | 8,361 | 3,420 |
| Bus infrastructure | 7,373 | 2,579 |
| Land fund | 35,607 | - |
| Future Transport Zone | 1,614 | - |
| Connected vehicles | 3,382 | - |
| Regional Transport Coordination Centre | 1,603 | - |
| Other | 2,922 | 2,042 |
| | 155,848 | 78,860 |
| Grants to local authorities | 38,860 | 36,734 |
| **Total capital expenditure** | **194,708** | **115,594** |
| Property, plant and equipment (note 17) | 88,565 | 61,563 |
| Inventories (note 19) | 12,424 | - |
| Written off to cost of services - capital development/district schemes | 93,719 | 54,031 |
| | **194,708** | **115,594** |
| **Funded by:** | | |
| Central Government grants | 83,395 | 56,726 |
| District/Local Enterprise Partnership (LEP) grants and contributions | 2,507 | 9,396 |
| 3rd party contributions | 4,057 | 195 |
| Total grants and contributiions | 89,959 | 66,317 |
| Gainshare contribution | 7,326 | 27,609 |
| Borrowing | 97,423 | 21,668 |
| | **194,708** | **115,594** |

Explanations on the performance of the capital programme can be found in section 7 in the Narrative Report.

The 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 Authority's underlying Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed below:

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| **Opening Capital Financing Requirement** | 257,177 | 220,152 |
| **Capital investment** | | |
| Capital programme costs funded by borrowing (note 28) | 97,423 | 21,668 |
| Other capital expenditure funded by borrowing - Collective Investment Fund | 7,466 | 31,556 |
| **Sources of finance** | | |
| Minimum Revenue Provision (MRP) | (400) | (400) |
| Use of the Capital Receipts Reserve to finance capital expenditure (note 26) | (11,462) | (12,680) |
| Transferred debt repayment (note 25) | (757) | (688) |
| Capital expenditure charged to the General Fund | (1,683) | (2,431) |
| Capital grants received previously funded through borrowings | (33) | - |
| **Closing Capital Financing Requirement** | **347,731** | **257,177** |
| **Explanation of movement in year** | | |
| Increase in underlying need to borrow (unsupported by government financial assistance) | 90,554 | 37,025 |
| **Increase in Capital Financing Requirement** | **90,554** | **37,025** |

## 29. Pension schemes

### Defined benefit pension scheme

Employees of the Authority participate in the West Midlands Pension Fund, a defined benefit career average salary statutory scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. This scheme is administered by the City of Wolverhampton Council in accordance with the Local Government Pension Scheme Regulations 2013 and is governed by the Pensions Committee at the West Midlands Pension Fund.

In general, participating in a defined benefit pension scheme means that the employer is exposed to a number of risks:

- investment risk – the fund holds investment in assets classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- interest rate risk – the fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cash flows. As the fund holds assets such as equities, the value of the assets and liabilities may not move in the same way.
- inflation risk – all of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- longevity risk – in the event that the members live longer than assumed, a deficit will emerge in the fund. There are also other demographic risks.

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 set the Authority's employer contributions for the three years from 1 April 2017 at a primary rate of 15.9% 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 Authority over the average remaining service lives of the current members of the fund.

Following the latest triennial valuation as at 31 March 2019, the actuaries set the Authority's employer contributions for the three years from 1 April 2020 at a net primary rate of 12.4% of the current employees' pensionable pay. In April 2020 a prepayment of employer's contributions of £9.7m was made for the three years to 2022/23 to take advantage of discounts available.

Disclosures in this note are taken from the actuarial report provided by Barnett Waddingham LLP.

Following the recent McCloud and Sargeant judgement which relate to age discrimination within the Judicial and Fire Pension Schemes respectively, an allowance was made in 2018/19 for the estimated potential impact on the employer's defined benefit obligation based on analysis carried out by the Government Actuary's Department (GAD) and the employer's liability profile. Following government confirmation in a statement by the Chief Secretary to the Treasury on 15 July 2019 that the principles of the outcome would be accepted as applying to all public service schemes, this allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

On the High Court's recent ruling on the equalisation of Guaranteed Minimum Pension (GMP) between genders, the valuation assumption taken by the actuaries is that the West Midlands Pension Fund will pay limited increases for members that have reached State Pension Age (SPA) by 6 April 2016, with the Government providing the remainder of the inflationary increase, and for members that reach SPA after this date, the actuaries have assumed that the West Midlands Pension Fund will be required to pay the entire inflationary increase. Therefore the actuaries do not believe any adjustments to the value placed on the liabilities are needed.

**Calculation method**

The figures as at 31 March 2020 are based on the 31 March 2019 formal valuation of the fund. Membership data as at 31 March 2019 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 2020. 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 2020 is a deficit of £39.902m compared to a deficit of £51.113m at 31 March 2019.

**Movement in pension fund liability during the year**

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| Opening balance at 1 April | 51,113 | 50,213 |
| Employer's pension contributions payable in the year: | | |
| Current year | (2,072) | (3,269) |
| Prepayment for 2019/20 | 1,957 | 3,207 |
| Post employment benefit charged to the surplus or deficit on provision of services: | | |
| Current service cost | 7,598 | 6,192 |
| Past service cost | 111 | 1,257 |
| Administration expenses | 162 | 113 |
| Net interest cost | 1,201 | 1,266 |
| Total cost | 8,957 | 8,766 |
| Remeasurements (liabilities and assets) | (20,168) | (7,866) |
| **Closing balance at 31 March** | **39,902** | **51,113** |

**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:

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| **Comprehensive Income and Expenditure Statement** | | |
| **Cost of services** | | |
| Current service cost | 7,598 | 6,192 |
| Past service cost | 111 | 1,257 |
| Administration expenses | 162 | 113 |
| **Financing and investment income and expenditure** | | |
| Net interest cost | 1,201 | 1,266 |
| **Total post employment benefit charged to the surplus or deficit on provision of services** | **9,072** | **8,828** |
| Remeasurements (liabilities and assets) | (20,168) | (7,866) |
| **Total post employment benefit charged/(credited) to the Comprehensive Income and Expenditure Statement** | **(11,096)** | **962** |
| **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 | (9,072) | (8,828) |
| Actual amount charged against the General Fund Balance for pensions in the year | 2,072 | 3,269 |
| | **(7,000)** | **(5,559)** |

### Assets and liabilities in relation to post-employment benefits

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| Present value of scheme liabilities | (289,789) | (304,285) |
| Present value of scheme assets | 249,887 | 253,172 |
| **Amounts recognised as liabilities** | **(39,902)** | **(51,113)** |

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

| | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| Opening balance at 1 April | 304,285 | 306,062 |
| Current service cost | 7,598 | 5,596 |
| Interest cost | 7,022 | 7,522 |
| Change in demographic assumptions* | 8,847 | (16,237) |
| Change in financial assumptions | (27,334) | 11,384 |
| Experience loss on defined benefit obligations | 511 | - |
| Liabilities assumed on settlements | - | 1,107 |
| Contributions by scheme participants | 1,522 | 1,220 |
| Benefits paid | (12,773) | (13,753) |
| Past service costs/curtailments | 111 | 1,384 |
| **Closing balance at 31 March** | **289,789** | **304,285** |

***** the change in demographic assumptions can be found in the valuation assumptions on page 81

### Reconciliation of fair value of the scheme assets

| **Assets** | Authority and Group | |
|---|---|---|
| | **2020** | **2019** |
| | £'000 | £'000 |
| Opening balance at 1 April | 253,172 | 255,849 |
| Interest on plan assets | 5,821 | 6,256 |
| Administration expenses | (162) | (113) |
| Return on assets less interest | (16,019) | 3,013 |
| Other actuarial gains | 18,211 | - |
| Employer contributions - current year | 2,072 | 3,269 |
| Employer contributions - prepayment for 2019/20 | (1,957) | (3,207) |
| Contributions by scheme participants | 1,522 | 1,220 |
| Settlement prices received | - | 638 |
| Benefits paid | (12,773) | (13,753) |
| **Closing balance at 31 March** | **249,887** | **253,172** |

The plan assets at the year-end were as follows:

| Authority | 2020 | 2020 | 2019 | 2019 |
|---|---|---|---|---|
| | % | £'000 | % | £'000 |
| **Asset** | | | | |
| Equities | 56.9 | 142,247 | 59.1 | 149,638 |
| Gilts | 11.6 | 29,045 | 9.6 | 24,322 |
| Other bonds | 4.2 | 10,443 | 3.9 | 9,755 |
| Property | 8.9 | 22,226 | 8.5 | 21,503 |
| Cash/liquidity | 3.6 | 8,968 | 3.2 | 8,018 |
| Other* | 14.8 | 36,958 | 15.7 | 39,936 |
| **Total** | **100.0** | **249,887** | **100.0** | **253,172** |

***** mainly consists of private equities, infrastructure, gilt and equity index futures

As a result of the impact of COVID-19 on the global financial markets, the valuation of the Pension Fund's investment properties is reported on the basis of material valuation uncertainty. The Authority's share of these assets is £16m.

**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.

| | | Authority |
|---|---|---|
| | 2020 | 2019 |
| **Valuation assumptions** | | |
| Discount rate | 2.4% | 2.4% |
| Rate of salary increase | 3.0% | 4.0% |
| Rate of pension | 2.0% | 2.5% |
| Future life expectancies from age 65 | | |
| Retiring today: | | |
| Males | 21.9 | 20.9 |
| Females | 24.1 | 23.2 |
| Retiring in 20 years: | | |
| Males | 23.8 | 22.6 |
| Females | 26.0 | 25.0 |

It is assumed that:

- members will exchange half of their commutable pension for cash at retirement;
- members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- the proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

The impact of the change in the valuation assumptions is reflected in the five year history table shown below:

| **Five year history** | **2016** £'000 | **2017** £'000 | **2018** £'000 | **2019** £'000 | **2020** £'000 |
|---|---|---|---|---|---|
| Present value of liabilities | (316,284) | (318,749) | (306,062) | (304,285) | (289,789) |
| Fair value of assets in the pension scheme | 225,655 | 261,583 | 255,849 | 253,172 | 249,887 |
| (Deficit)/surplus in the scheme | (90,629) | (57,166) | (50,213) | (51,113) | (39,902) |
| Difference between the expected and actual return on scheme assets | (7,765) | 32,795 | (6,041) | 3,013 | 2,192 |
| Percentage of scheme assets | -3.4% | 12.5% | -2.4% | 1.2% | 0.9% |
| Experience gains and (losses) on scheme liabilities | (12,058) | (28,991) | 11,701 | (11,384) | 26,823 |
| Percentage of scheme liabilities | -3.8% | -9.1% | 3.8% | -3.7% | 9.3% |
| Changes in actuarial assumptions | - | 9,272 | - | 16,237 | (8,847) |
| Percentage of scheme liabilities | 0.0% | 2.9% | 0.0% | 5.3% | -3.1% |
| Net actuarial gain/(loss) recognised | (19,823) | 13,076 | 5,660 | 7,866 | 20,168 |
| Percentage of scheme liabilities | -6.3% | 4.1% | 1.8% | 2.6% | 7.0% |
| Cumulative actuarial loss recognised | (93,901) | (80,825) | (75,165) | (67,299) | (47,131) |

**Defined Contribution Pension Scheme – Midland Metro Limited and WM5G Limited**

**Income Statement**
The amounts recognised in Midland Metro's Income Statement and consolidated into the Group Comprehensive Income and Expenditure Statement are £155k (2019: £70k).

The amounts recognised in WM5G Limited's Income Statement and consolidated into the Group Comprehensive Income and Expenditure Statement are £15k (2019: £nil).

## 30. Financial risk management

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

The Authority is exposed to credit risk, liquidity risk and market risk. Whilst some transactions for Metro operations are executed in Euros, currency risk is not a significant factor for the Authority since it ensures that substantially all financial assets and liabilities are contracted for in Sterling.

The Authority is also exposed to the risk of default against loans made to commercial and residential developers under its investment funds. The Authority negate the risk of default through employing sector specific professional fund managers, full and thorough due diligence on all investments as they pass through the assurance framework and the securing of loans on developer land and assets.

**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 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 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 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.

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

| | Authority | Group | Authority | Group |
|---|---|---|---|---|
| | 2019/20 | 2019/20 | 2018/19 | 2018/19 |
| | £'000 | £'000 | £'000 | £'000 |
| 12-month expected credit losses: | | | | |
| Investments (note 18) | 13,088 | 13,088 | 27,939 | 27,939 |
| Cash and short-term deposits (note 21) | 78,793 | 79,546 | 28,732 | 29,124 |
| | 91,881 | 92,634 | 56,671 | 57,063 |
| Simplified approach: | | | | |
| Trade debtors and accrued income (note 20) | 31,300 | 33,573 | 22,105 | 21,450 |
| **Total** | **123,181** | **126,207** | **78,776** | **78,513** |

The loss allowance recognised during the year are as follows:

| **Authority** | **12-month expected credit losses** | | **Lifetime expected credit losses - simplified** | | **Total** | |
|---|---|---|---|---|---|---|
| **Asset class (amortised cost)** | **2019/20** | **2018/19** | **2019/20** | **2018/19** | **2019/20** | **2018/19** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Opening balance as at 1 April | 1,400 | - | - | - | 1,400 | - |
| Individual financial assets transferred to 12-month expected credit loss | 2,921 | 1,400 | - | - | 2,921 | 1,400 |
| Individual financial assets transferred to lifetime expected credit losses | - | - | - | - | - | - |
| **Closing balance at 31 March** | **4,321** | **1,400** | **-** | **-** | **4,321** | **1,400** |

| **Group** | **12-month expected credit losses** | | **Lifetime expected credit losses - simplified** | | **Total** | |
|---|---|---|---|---|---|---|
| **Asset class (amortised cost)** | **2019/20** | **2018/19** | **2019/20** | **2018/19** | **2019/20** | **2018/19** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Opening balance as at 1 April | 1,400 | - | - | - | 1,400 | - |
| Individual financial assets transferred to 12-month expected credit loss | 1,291 | 1,400 | - | - | 1,291 | 1,400 |
| Individual financial assets transferred to lifetime expected credit losses | - | - | - | - | - | - |
| **Closing balance at 31 March** | **2,691** | **1,400** | **-** | **-** | **2,691** | **1,400** |

**Liquidity risk**
Liquidity risk covers the ease of access to finance. The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The 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 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 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 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.

**Coronavirus**
The Authority will continue to monitor closely the impacts of COVID-19 including the effect on financial markets and the stability of the financial institutions the Authority has dealings with to ensure that security and liquidity of Group investments are not adversely affected. The Authority is assisted in this regard by professional Treasury Management advisors, Arlingclose Limited.

With respect to the commercial loans, the Authority is continually reviewing the impacts on the construction sector and the potential impact on its loan portfolio. Provision has been made in the 2019/20 accounts for potential defaults and the Authority will continue to maintain a close dialogue

with borrowers through its sector specialist fund manager. In the event that any of the investments encounter difficulty, each will be managed on a case by case basis and if necessary, the Authority's rights over control of the development or assets will be exercised.

**Maturity analysis of financial liabilities**
All trade and other payables are due to be paid in less than one year.

## 31. Financial Instruments

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

| **Analysis for 2019/20** | **Long-term** | | **Current** | | **Total** | |
|---|---|---|---|---|---|---|
| | **Authority** | **Group** | **Authority** | **Group** | **Authority** | **Group** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Financial assets at amortised cost** | | | | | | |
| Investments (note 18) | 5,093 | 5,093 | 7,995 | 7,995 | 13,088 | 13,088 |
| Long-term debtors | 241 | 241 | - | - | 241 | 241 |
| Short-term debtors (note 20) | - | - | 31,300 | 33,573 | 31,300 | 33,573 |
| Cash and cash equivalents (note 21) | - | - | 78,793 | 79,546 | 78,793 | 79,546 |
| **Total financial assets** | **5,334** | **5,334** | **118,088** | **121,114** | **123,422** | **126,448** |
| **Financial liabilities at amortised cost** | | | | | | |
| Borrowings (note 22) | 118,432 | 118,432 | 7,024 | 7,024 | 125,456 | 125,456 |
| Short-term creditors (note 23) | - | - | 69,727 | 71,998 | 69,727 | 71,998 |
| Transferred debt (note 25) | 5,595 | 5,595 | 833 | 833 | 6,428 | 6,428 |
| **Total financial liabilities** | **124,027** | **124,027** | **77,584** | **79,855** | **201,611** | **203,882** |

| **Comparatives for 2018/19** | **Long-term** | | **Current** | | **Total** | |
|---|---|---|---|---|---|---|
| | **Authority** | **Group** | **Authority** | **Group** | **Authority** | **Group** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Financial assets at amortised cost** | | | | | | |
| Investments (note 18) | 6,940 | 6,940 | 20,999 | 20,999 | 27,939 | 27,939 |
| Short-term debtors (note 20) | - | - | 22,105 | 21,450 | 22,105 | 21,450 |
| Cash and cash equivalents (note 21) | - | - | 28,732 | 29,124 | 28,732 | 29,124 |
| **Total financial assets** | **6,940** | **6,940** | **71,836** | **71,573** | **78,776** | **78,513** |
| **Financial liabilities at amortised cost** | | | | | | |
| Borrowings (note 22) | 123,771 | 123,771 | 7,136 | 7,136 | 130,907 | 130,907 |
| Short-term creditors (note 23) | - | - | 53,868 | 55,298 | 53,868 | 55,298 |
| Transferred debt (note 25) | 6,428 | 6,428 | 757 | 757 | 7,185 | 7,185 |
| **Total financial liabilities** | **130,199** | **130,199** | **61,761** | **63,191** | **191,960** | **193,390** |

**Income, Expense, Gains and Losses**

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

| Authority | 2019-20 | | | 2018-19 | | |
|---|---|---|---|---|---|---|
| | Financial assets at amortised cost | Financial liabilities at amortised cost | Total Authority | Financial assets at amortised cost | Financial liabilities at amortised cost | Total Authority |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Interest income (note 12) | (2,262) | - | (2,262) | (1,703) | - | (1,703) |
| Interest expense (note 12) | - | 10,705 | 10,705 | - | 10,160 | 10,160 |
| **Net loss/(gain) for the year in the surplus or deficit on the provision of services** | **(2,262)** | **10,705** | **8,443** | **(1,703)** | **10,160** | **8,457** |

| Group | 2019-20 | | | 2018-19 | | |
|---|---|---|---|---|---|---|
| | Financial assets at amortised cost | Financial liabilities at amortised cost | Total Group | Financial assets at amortised cost | Financial liabilities at amortised cost | Total Group |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Interest income (note 12) | (2,277) | - | (2,277) | (1,705) | - | (1,705) |
| Interest expense (note 12) | - | 9,075 | 9,075 | - | 10,160 | 10,160 |
| **Net loss/(gain) for the year in the surplus or deficit on the provision of services** | **(2,277)** | **9,075** | **6,798** | **(1,705)** | **10,160** | **8,455** |

**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.

| Analysis for 2019/20 | Input level in fair value hierarchy | Authority Carrying amount £'000 | Authority Fair value £'000 | Group Carrying amount £'000 | Group Fair value £'000 |
|---|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | | |
| Investments | N/A | 13,088 | 13,088 | 13,088 | 13,088 |
| Long-term debtors | N/A | 241 | 241 | 241 | 241 |
| Short-term debtors | N/A | 31,300 | 31,300 | 33,573 | 33,573 |
| Cash and cash equivalents | N/A | 78,793 | 78,793 | 79,546 | 79,546 |
| **Total financial assets** | | **123,422** | **123,422** | **126,448** | **126,448** |
| **Financial liabilities at amortised cost** | | | | | |
| Public Works Loan Board (PWLB) | Level 2 | 115,349 | 178,185 | 115,349 | 178,185 |
| Barclays | Level 2 | 10,107 | 14,639 | 10,107 | 14,639 |
| **Total borrowings** | | **125,456** | **192,824** | **125,456** | **192,824** |
| Short-term creditors | N/A | 69,727 | 69,727 | 71,998 | 71,998 |
| Transferred debt | Level 2 | 6,428 | 7,146 | 6,428 | 7,146 |
| **Total financial liabilities** | | **201,611** | **269,697** | **203,882** | **271,968** |

| Comparatives for 2018/19 | Input level in fair value hierarchy | Authority Carrying amount £'000 | Authority Fair value £'000 | Group Carrying amount £'000 | Group Fair value £'000 |
|---|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | | |
| Investments | N/A | 27,939 | 27,939 | 27,939 | 27,939 |
| Short-term debtors | N/A | 22,105 | 22,105 | 21,450 | 21,450 |
| Cash and cash equivalents | N/A | 28,732 | 28,732 | 29,124 | 29,124 |
| **Total financial assets** | | **78,776** | **78,776** | **78,513** | **78,513** |
| **Financial liabilities at amortised cost** | | | | | |
| Public Works Loan Board (PWLB) | Level 2 | 120,800 | 180,745 | 120,800 | 180,745 |
| Barclays | Level 2 | 10,107 | 14,201 | 10,107 | 14,201 |
| **Total borrowings** | | **130,907** | **194,946** | **130,907** | **194,946** |
| Short-term creditors | N/A | 53,868 | 53,868 | 55,298 | 55,298 |
| Transferred debt | Level 2 | 7,185 | 8,239 | 7,185 | 8,239 |
| **Total financial liabilities** | | **191,960** | **257,053** | **193,390** | **258,483** |

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

Barclays: 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, which is an income approach.

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, which is an income approach. The fair value is adjusted to reflect the premium or discount charged for early repayment.

The key inputs for Barclays and PWLB valuation model are contractual future cash flows which are then discounted using a discount rate. The discount rate ranges from 1.68% to 2.18% depending on the remaining term.

Transferred debt: this consists mainly of PWLB and LOBOs. The valuation technique for PWLB is to discount contractual cash flows at the market rate for local authority loans of the same remaining term. The valuation technique for LOBOs is to discount contractual 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. The key inputs for these valuation models are contractual future cash flows which are then discounted using a discount rate. The discount rates used for PWLB ranges from 1.90% to 2.38% and the discount rate for LOBOs is 1.64%.

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

## 32. Operating leases

**Authority 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 Authority has determined that the tendered service contracts of six (2019: 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 2020 are as follows:

| | **2020** | **2019** |
|---|---|---|
| | £'000 | £'000 |
| **Land and buildings** | | |
| Less than one year | 447 | 430 |
| Between two and five years | 872 | 1,029 |
| More than five years | 2,794 | 2,900 |
| | **4,113** | **4,359** |
| **Supported bus services** | | |
| Total contract spend: | | |
| Less than one year | 523 | 413 |
| Between two and five years | 495 | 219 |
| | **1,018** | **632** |

**Authority as lessor**

The 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 2020 are as follows:

| | **2020** | **2019** |
|---|---|---|
| | £'000 | £'000 |
| **Land and buildings** | | |
| Less than one year | 174 | 188 |
| Between two and five years | 352 | 448 |
| More than five years | 1,909 | 1,987 |
| | **2,435** | **2,623** |

## 33. Reconciliation of liabilities arising from financing activities

| | Long-term borrowings | Short-term borrowings | Grants receipts in advance | Total Authority and Group |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Opening balance at 1 April | 136,284 | - | 35,381 | 171,665 |
| Financing cash flows | - | (6,078) | - | (6,078) |
| Non-cash changes | (12,257) | 12,257 | 76,073 | 76,073 |
| **Closing balance at 31 March** | **124,027** | **6,179** | **111,454** | **241,660** |

## 34. Contingent liabilities and guarantees

The West Midlands Integrated Transport Authority Pension Fund (WMITA PF) was established by Government Regulation on 29 November 1991 and became active on 4 December 1991. The pension fund is guaranteed by National Express Group plc and Preston City Council. In the event of the pension fund becoming insolvent and National Express Group plc and Preston City Council not meeting their guarantee, then the Authority would be liable to meet any excess liabilities.

In 2019/20, following the enactment of UK Statutory Instrument 2019 No. 1351 ("The Local Government Pension Scheme (West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund Merger) Regulations 2019, all assets and liabilities of the former WMITA PF transferred to the West Midlands Pension Fund (WMPF). For any person for whom the appropriate administering authority had been, or would have been, the Authority, the appropriate administering authority became the City of Wolverhampton Council. The regulations effecting this change came into full legal force on 8 November 2019 but with retrospective effect from 1 April 2019 (the 'merger date' cited in the legislation).

Following the merger, the Authority is discharged from the excess liabilities of Preston Bus Limited which is guaranteed by Preston City Council but remains liable to meet any excess liabilities of West Midlands Travel Limited (WMTL) if National Express Group plc is unable to meet their guarantee. In the event that WMTL exit the pension fund (either directly or through the guarantee arrangement with National Express Group plc) without fully discharging its liabilities, the Authority will subsume the assets and liabilities of WMTL pension fund with its own assets and liabilities in the WMPF.

The market value for WMTL is only available at each triennial valuation and was value at a deficit of £92.5m at the last triennial valuation as at 31 March 2019.

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

| | **£'000** |
|---|---|
| Sandwell MBC (2 guarantees) | 104 |
| Birmingham City Council (1 guarantee) | 97 |

## 35. Related party disclosures

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the 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 Authority. These include:

**Central Government**

Central Government has significant influence over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates and provides funding in the form of grants. Grants received from Government Departments together with grant receipts not yet recognised due to conditions attached to them at 31 March 2020 are set out in note 13.

**Members**

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members allowances paid in 2019/20 is shown in note 15. 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 Authority or co-opted to one of its committees.

During the year, there were expenditure and grant payments totalling £548k (2019: £nil) with Black Country Consortium Limited in which a member has an interest.

**Officers**

During the year there were income transactions of £10k (2019: £209k) relating to rental income and recharges, and professional consultancy fees and miscellaneous expenses of £3.4m (2019: £320k) with companies in which two (2019: three) officers had an interest. Transactions with these companies were conducted at arm's length. The amounts as at 31 March 2020 due to these companies are £nil (2019: £440k) and due from these companies are £8k (2019: £37k).

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

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

| | Transport Levy | | Membership fees and contributions | | LGF LEP funding | |
|---|---|---|---|---|---|---|
| | **2019/20** | **2018/19** | **2019/20** | **2018/19** | **2019/20** | **2018/19** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Constituent authorities** | | | | | | |
| Birmingham City Council | 45,025 | 45,031 | 1,090 | 1,090 | 1,503 | 1,593 |
| City of Wolverhampton Council | 10,292 | 10,276 | 572 | 572 | - | - |
| Coventry City Council | 14,260 | 14,132 | 631 | 630 | - | - |
| Dudley MBC | 12,647 | 12,719 | 608 | 608 | - | - |
| Sandwell MBC | 12,887 | 12,922 | 612 | 612 | - | - |
| Solihull MBC | 8,471 | 8,480 | 545 | 545 | - | - |
| Walsall Council | 11,138 | 11,160 | 586 | 586 | 68 | 2,636 |
| **Non-constituent authorities** | - | - | 325 | 325 | - | - |
| **Total** | **114,720** | **114,720** | **4,969** | **4,968** | **1,571** | **4,229** |

Funding paid by the Authority to the District Councils:

| | Devolved Transport Funding | | Economic Regeneration | | Adult Education Budget | |
|---|---|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Constituent authorities** | | | | | | |
| Birmingham City Council | 5,160 | 5,160 | - | 112 | 6,392 | - |
| City of Wolverhampton Council | 3,505 | 3,610 | - | 1,172 | 1,957 | - |
| Coventry City Council | 4,480 | 4,588 | - | - | 3,313 | - |
| Dudley MBC | 4,585 | 4,745 | - | - | 844 | - |
| Sandwell MBC | 4,755 | 4,918 | - | - | 959 | - |
| Solihull MBC | 6,414 | 5,523 | - | - | - | - |
| Walsall MBC | 6,375 | 5,581 | - | - | - | - |
| **Total** | **35,274** | **34,125** | **-** | **1,284** | **13,465** | **-** |

**Entities controlled or significantly influenced by the Authority**

During the year, the Authority paid management fees of £150k (2019: £150k) and £579k (2019: £175k) to West Midlands Development Capital Limited, a wholly-owned subsidiary, for the management of the Brownfield Land and Property Development Fund and the Collective Investment Fund respectively.

West Midlands Rail Limited, a company limited by guarantee where the Authority has 50% interest, received funding contributions of £41k (2019: £41k) from the Authority. In addition, the Authority recharged expenses of £154k (2019: £389k) which the Authority paid on behalf of West Midlands Rail Limited. The Authority has also charged corporate support and professional services of £46k (2019: £46k).

Other than as disclosed in note 19, Midland Metro Limited, a wholly-owned subsidiary which is consolidated in the group accounts, received subsidy of £1.01m (2019: £821k) from the Authority under the terms of the Public Service Agreement. The Authority has charged corporate support and professional services of £478k (2019: £370k). The Authority has also recharged expenses of £86k (2019: £126k).

During the year, the Authority paid grant of £1.70m to (2019: £nil) to WM5G Limited, a wholly-owned subsidiary which is consolidated in the group accounts, in respect of funding of initiatives and competitions to acceleration 5G infrastructure and applications. The Authority has also recharged expenses of £549k (2019: £nil)

Transactions with West Midlands Development Capital Limited, West Midlands Rail Limited, Midland Metro Limited and WM5G Limited were conducted at arm’s length. The outstanding balances as at 31 March 2020 are as follows:

| **Due from** | |
|---|---|
| Midland Metro Limited | £1.7m |
| West Midlands Rail Limited | £121k |
| WM5G Limited | £659k |

## 36. Events after the Reporting Period

The unaudited Statement of Accounts were authorised for issue by the Authority’s Section 151 officer on 18 May 2020. Events taking place after this date are not reflected in the financial statements or notes to the accounts. Where events taking place before this date provided information about conditions existing as at 31 March 2020, the amounts in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The following events occurred after 31 March 2020 but are considered to be non-adjusting events:

The COVID-19 pandemic, also known as the coronavirus pandemic, is an ongoing global pandemic of the coronavirus disease (COVID-19). The outbreak was first identified in Wuhan, China, in December 2019 and spread to the United Kingdom in late January 2020.

In late March, the UK government imposed a lockdown, banning all non-essential travel and shutting almost all schools, businesses, venues, facilities, amenities and places of worship. The impact on the Authority's finances for 2019/20 was around £1m and this mainly consisted from the loss of income from Metro.

The adverse impact on the Authority's finances in 2020/21 continues to be driven by transport related income losses as a consequence of COVID-19 and the restrictions introduced to limit the spread of the virus. The DfT has confirmed short-term funding for Metro in the form of Light Rail Restart Grant until the end of March 2021, intended to provide financial support to enable services to continue whilst needing to implement social distancing measures. Further financial support has been granted by Central Government to mitigate a proportion of losses from sales, fees and charges. WMCA Board has endorsed that the remaining budget deficit of £2.0m is met from the use of one-off reserves.

Following a further lockdown which was imposed in November 2020, the financial impact is currently being evaluated and will be reported at the WMCA Board meeting in January 2021.

The Authority has entered into a Freight Principles agreement with Network Rail Infrastructure Limited in July 2020 where at any time after the tenth anniversary of this agreement, if a demonstrable need be established to reinstate heavy rail freight services between Stourbridge Junction and Walsall (including along the Railway Corridor) which has the approval of the Secretary of State, they will work together to deliver that provision. An estimate of the works to be to be carried out by the Authority is currently undeterminable.

The Authority has contracted VolkerFitzpatrick Limited in September 2020 to carry out refurbishment works at University Station (owned by Network Rail) worth £36.1m. The works are currently expected to be completed in July 2022.

**Accounting Standards**
International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are the accounting standards that the Authority are required to follow when producing the financial statements.

**Accruals**
An accounting principle that recognises income and expenditure as they are earned or incurred, not as money is received or paid.

**Actuarial Assumptions**
Predictions made for factors that will affect the financial position of the pension scheme.

**Actuarial Gains and Losses**
Changes in the estimated value of the pension fund because events have not coincided with the actuarial assumptions made or the assumptions themselves have changed.

**Amortisation**
The measure of the consumption of an intangible asset over its useful life.

**Budget**
A budget is a plan of approved spending during a financial year.

**Capital Programme**
The plan of approved spending on non-current assets.

**CIPFA**
The Chartered Institute of Public Finance and Accountancy, the institute that governs accounting in the public sector.

**Collective Investment Fund**
Fund of investments held by the Authority which provides loans to property developers to support the acceleration of commercial property developments within the West Midlands region.

**Credit loss**
Cash shortfalls measured by the difference between the net present value of all the contractual cash flows that are due to an authority in accordance with the contract for the instrument and the net present value of all the cash flows that the authority expects to receive.

**Deficit**
This occurs when spending exceeds income.

**Depreciation**
The measure of wear and tear, consumption or other reduction in the useful economic life of a non-current asset.

**Expected credit loss**
The weighted average of credit losses with the respective risks of a default occurring as the with the weights.

**Fair Value**
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

**Financial Instrument**
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial Year**
The Authority's financial year runs from 1 April to the following 31 March.

**Impairment of Asset**
An asset has been impaired when it is judged to have lost value other than through normal use.

**Intangible Assets**
An item which does not have physical substance (for example software) but can be identified and used by the Authority over a number of years.

**Lease**
A finance lease is an agreement to pay for an asset in regular instalments where the person paying the lease (the lessee) is deemed to own the asset. In contrast, an operating lease occurs when the lessee is not considered to own the asset.

**LOBO**
Lenders Options Borrowers Option. A form of loan where the lender can change certain conditions of the loan, such as the dates and the interest rate. If this occurs, the borrower then has the option of either continuing with the loan or redeeming it in full without a penalty.

**Materiality**
An item is material if its inclusion in the financial statements would influence or change the judgement of a reasonable person. If the information would have no impact on the decision maker, it is deemed not material.

Public Works Loan Board (PWLB)
A government agency that lends money to local authorities. Local authorities are able to borrow some or all of their requirements to finance capital expenditure from this source.

**Revenue Expenditure Funded from Capital under Statute (REFCUS)**
Spending on assets that have a lasting value but are not owned by the Authority.