West Midlands
Combined Authority

Statement of Accounts

For the year ended 31 March 2018

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Contents

Welcome to the West Midlands Combined Authority's Statement of Accounts for the financial year ended 31 March 2018. 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 Statement of Accounts for the year ended 31 March 2018 has been prepared on a single entity basis 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 2017/18, supported by International Financial Reporting Standards.

The Narrative Report has been prepared to provide an outline of the activities for the year 2017/18, providing both a guide to West Midlands Combined 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. Organisational overview and external environment

The West Midlands Combined Authority (WMCA) 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 WMCA under the provisions of the 2016 Order.

The WMCA 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 WMCA 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 WMCA agenda. Full details of bodies that are members of the WMCA are set out in the Annual Governance Statement on page 18.

The policies of the WMCA are directed by the WMCA Board which is chaired by the Mayor and are implemented by the Leadership Team comprising a Chief Executive and 6 Directors, supported by officers. The assurance function is carried out by both the Audit, Risk and Assurance Committee and the Overview and Scrutiny Committee, 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. The WMCA employed 406 people as at 31 March 2018.

During the past year, the WMCA 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. The WMCA has also continued to develop strong and sustainable relationships with national government and in November 2017, a second devolution deal was agreed. The second deal demonstrates Government's continued commitment to devolution and the future of the West Midlands. The deal supports our ambitions to deliver growth through a local industrial strategy and improve the wellbeing of our citizens.

The West Midlands' growth priorities and ambitions are set out in the Strategic Economic Plan (SEP). The investments and actions the WMCA makes are focussed on delivering this plan, working with Local Enterprise Partnerships and other partners.

The 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

WMCA'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

WMCA receives various government, Local Economic Partnership and local authority grants to fund its development plans. The annual Gainshare grant from the Government of £36.5m remains the most significant funding source for the WMCA's £8 billion Investment Programme.

2. Review of the Year

Focusing on its core areas of Strategy; Housing & Land; Productivity & Skills; Health & Wellbeing; Transport and Public Service Reform, the WMCA achieved a number of successes in 2017/18.

A second devolution deal was secured which will see £1.1 billion of government funding come into the region and be used to drive an £8 billion investment programme over the next 30 years.

The Land Delivery Action Plan was implemented to unlock hundreds of hectares of land for housing and commercial use, providing jobs and economic growth. The second devolution deal outlines a commitment from Government to provide £6 million of funding to support additional housing delivery capacity and plans were approved separately to facilitate 803 new housing units across the region from the Brownfield Land and Property Development Fund.

Investment in the £200 million brownfield remediation fund to clean up 1,600 hectares of contaminated industrial land and bring it back into use continued, while the Greater Icknield and Smethwick Housing Growth Prospectus - a blueprint to accelerate building the £400 million development of 5,160 new homes in Birmingham and Sandwell – was launched.

The redevelopment of the region was sustained through the £60 million Collective Investment Fund which in the past year included projects in Coventry, Dudley, Walsall and Wolverhampton. The West Midlands Growth Company was also formed to attract investment, jobs, visitors and businesses to the region.

Thousands of disadvantaged people and long-term jobseekers were helped by advice and support to get back into work as part of a £4.5 million scheme and the Productivity and Skills Commission was launched, offering impartial support and advice to the WMCA as it seeks to reduce unemployment, improve people's job skills and secure better productivity. The Commission brings together business leaders, productivity and skills experts and senior academics, with a clear focus on better understanding the needs of key sectors in the West Midlands economy.

2017 saw the introduction of the Leadership Commission, a group of inspirational role models to help people from under-represented parts of society reach senior positions in their careers. The Homelessness Taskforce was created to design out rough sleeping through co-ordinated working between the public, private and voluntary sectors, and the Mayor's Mentors scheme aims to provide advice and guidance for young people.

The WMCA is committed to improving the region's productivity and skills levels to support inclusive growth. Significant progress was made in 2017/18 and firm foundations laid for future activity.

The second devolution deal recognised the importance of the Productivity and Skills Commission and agreed to take forward its recommendations through dialogue with Government. It also brought in £5 million additional funding, over a three-year period, to deliver a construction training programme and saw Government commit to working with the WMCA to deliver the careers strategy, informed by local priorities.

The Mental Health Commission published the 'Thrive West Midlands' action plan to drive better mental health and wellbeing and the West Midlands wellbeing commitment was launched. The first West Midlands 'Walking out of Darkness' event also took place to raise awareness about mental health and suicide prevention.

The 'West Midlands on the Move' strategic framework for physical activity was published and a forward plan with health partners developed, which outlined the WMCA's role in strengthening links between health and productivity improvements.

The WMCA is committed to driving a model of inclusive economic growth that benefits all of its residents and makes a real difference to communities. Policy agendas have been developed for offending, criminal justice and the devolution of youth justice, and for people with multiple complex needs who often suffer from poor outcomes.

A forward view for Public Services Reform has been developed in partnership with local stakeholders, and a programme of work around Public Service Reform and inclusive growth has been established. Successful initiatives have been delivered to improve community cohesion including the Mayor's Faith Conference, the launch of the Mayor's Cohesion Prize and Diwali on the Square. The WMCA also officially backed Birmingham City Council's successful bid to host the 2022 Commonwealth Games.

The WMCA has a portfolio of high-profile externally delivered investment projects which will contribute to the WMCA's primary regeneration and economic growth goals outlined in the Strategic Economic Plan.

A grant agreement was signed which will enable the land acquisition process to progress to enable the Coventry City Centre regeneration scheme to take place. The scheme is predominantly private sector driven and funded, with £98.8 million from the WMCA. The scheme is expected to secure 1,528 additional permanent jobs and an extra £1.1 billion Gross Value Added (GVA).

The WMCA also committed £51.2 million to accelerate delivery of Friargate – an ambitious new business district next to Coventry railway station and £273.6 million to the Coventry UK Central Plus programme which will deliver a step-change in transport connectivity to remove barriers to growth and improve access to HS2.

The outline business case and funding for the UK Central Hub HS2 Interchange in Solihull was approved and detailed design work commenced, while the outline business case for Birmingham International Station Integrated Hub was developed.

An outline business case was developed for the Demonstration of Intelligence Systems programme alongside university partners, aiming to grow and apply intelligent and smart system technology to solve challenges faced by the public and private sector to improve productivity.

There were a number of successes designed to improve the efficiency and productivity of WMCA processes. The WMCA assurance process and planning tool was developed and implemented across the WMCA Investment Programme and work undertaken with key stakeholders to provide support in the use and application of Programme Management Office (PMO) processes and tools. The PMO team structure was reviewed and adjusted to meet current and future WMCA needs.

The WMCA Assurance Framework was implemented and internal governance to improve the appraisal and approval processes for minor works projects was reviewed. Following an extensive review the WMCA Business Continuity Plan was updated.

The WMCA was named one of the best 100 companies to work for by the Sunday Times Best Companies survey, while manager forums and an employee volunteer scheme was launched.

The audited financial accounts for 2016/17 were published earlier than before, improving transparency and the first combined WMCA Budget was delivered. The finance team was awarded the 'Not for Profit Finance Team of the Year' at the West Midlands Finance Awards.

A paperless procurement process was developed and task force groups to support communication and collaboration between procurement representatives from across the WMCA were established. Step-by-step guides to help team members add new information to the procurement system were produced to maintain consistency.

The Legal team supported the establishment of Midland Metro Limited, provided detailed advice to support the budget process and were also shortlisted for the Local Government Legal Team of the Year, with a team member winning Young Lawyer of the Year.

The Governance Team assumed responsibility for servicing and supporting WMCA Board meetings, rolled out and implemented ModernGov - an IT system for publishing details of all documented meetings - and also ensured the statutory budget setting process was completed, with full overview and scrutiny of the budget process, including a public 'Mayor's Question Time'.

An asset review of the best future plan for WMCA office space took place, with an emphasis on sustainable design, and an environmental management review was carried out with Transport for West Midlands (TfWM) and the corporate leadership team.

The Communications team supported the first mayoral election campaign, compiled the submission for the National Transport Awards which saw TfWM win 'City-Region Transport Authority of the Year' for the second year running, and launched the Thrive Mental Health Commission Awards.

A major proportion of the budget was allocated to TfWM and the previous 12 months saw significant achievements in public transport services and infrastructure.

Chief stakeholders recommitted to the West Midlands Bus Alliance, with reviewed governance to focus on delivery and a plan was chosen for the development of Dudley Interchange, integrating Wednesbury to Brierley Hill Metro Extension and Dudley Town Centre regeneration proposals. The Sprint bus-based rapid transit mode project was further progressed, while apprentices and trainees received half price travel on buses, trains and trams.

The new West Midlands Trains franchise (jointly specified by Department for Transport (DfT) and the West Midlands Rail partnership of local authorities within WMCA) was launched in December 2017, securing significant improvements to local rail services until 2026.

Government funding was secured for the Midland Metro extensions to Edgbaston (£60 million) and Wednesbury Brierley Hill (£207 million), passenger numbers increased to more than 8 million for the first full year of the Birmingham City Centre Extension and the Bilston Road track replacement scheme was completed on time and within budget. Transport and Works Act Orders were submitted for the Edgbaston and Wednesbury Brierley Hill extensions and a Public Inquiry was held for the Birmingham Eastside Extension.

The introduction of secure ticketing onto the Swift travel smartcard provided replacements if cards are lost and Swift also rolled out onto the rail network. Swift vending was introduced at Wolverhampton bus station, allowing people to obtain a smartcard and Swift tickets outside Travel Information Centre opening hours.

The region's Key Route Network was defined and studies completed for the 23 corridors across the West Midlands Metropolitan Area. There was effective management of network disruption by major infrastructure investment, maintenance and events, including M5 J1-2 Oldbury Viaduct works and Birmingham Velo.

Network resilience improvements continued, with over £6 million secured for development and delivery of bus priority schemes and a partnership/stakeholder group was established, bringing together all senior officers involved in the delivery of the region's transport infrastructure improvements.

The customer-facing TfWM and WMCA websites were refreshed and partners and suppliers were provided with access to real time timetable and stop data to improve transport services and access.

The award-winning WorkWise project was made available online to support people back into employment, the West Midlands Bikeshare scheme was developed for the metropolitan area and walking and cycling programmes were delivered in partnership with Cycling UK and Living Streets.

3. Governance

Since the Mayor was elected in May 2017, he has begun to shape the priorities of the WMCA. A second Devolution Deal was also confirmed by Central Government in November 2017.

An almost entirely new Leadership Team has also been appointed and work has continued to strengthen and improve governance arrangements.

Further details are set out in the Annual Governance Statement that can be found on pages 18 to 24.

4. Operational model

WMCA 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.

Following the identification of WMCA's aspirations and strategic outcomes in the Strategic Economic Plan, the business planning process began in the autumn of 2016 including consultation with Budget Holders across WMCA, leading to the preparation of the Financial Plan for 2017/18 onwards and the detailed budget for 2017/18.

The Business Planning process sets out an approach to resource management that allows planning for WMCA'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 WMCA does business, including the better use of technology.

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 WMCA's continuous staff development and training programme and performance is monitored by the Performance Development Planning process that is now embedded at WMCA.

Table 1 below sets out the headcount (February 2018) and established full time equivalent (FTE) posts as well as the number of vacant posts, including new posts approved as part of the 2018/19 budget process:

Table 1: WMC Staffing Analysis – February 2018

No.	Headcount	FTE	Vacancies
TfWM/Corporate Services	360	425.1	73.9
Commissions	16	41.6	25.6
Mayor's Office	6	12.0	6.0
Total	**382**	**478.7**	**105.5**

With regard to Equal Pay requirements contained within the Equality Act, WMCA 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.

5. Risks and opportunities

WMCA 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 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.

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

As noted in Table 1 above, WMCA was carrying a significant number of vacancies as at 31 March 2018, primarily as a result of new posts approved as part of the 2018/19 budget process that had not been recruited to at that time. A formal capability and vacancy risk management plan has been put in place in consultation with the Audit, Risk and Assurance Committee to ensure that the potential risks associated with a high proportion of vacancies are managed effectively.

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

WMCA is committed to providing good value for money and opportunities for cost reduction are explored when appropriate.

Opportunities to generate additional revenue streams are actively explored. Recent examples include the generation of additional advertising revenue from WMCA's bus shelters in conjunction with a private sector partner as well as the creation of new commercial trading opportunities, including the establishment of the new wholly owned subsidiary, 'Midland Metro Ltd' 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 £50 million over the first 11 years which will be channelled back into the network for the benefit of passengers and the local economy.

Further devolution of powers from central government also presents a significant opportunity for WMCA building on the progress of the first two devolution deals, including proposed new powers that will seek to enable the Mayoral WMCA to assume governance of West Midlands Fire and Rescue Service and the Office of the Police and Crime Commissioner for the West Midlands.

6. Strategy and resource allocation

WMCA currently plans its finances over a medium term 3 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 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 and their contributions to the WMCA Operational 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 2018/19 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.

The announcements around the West Midlands Fire and Rescue Services and the Office of the West Midlands Police and Crime Commissioner will require one off costs and the West Midlands Combined Authority will be working with partners to identify how these will be funded.

The Medium Term Financial Plan reflects West Midlands Combined 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 tax payers and users as appropriate.

7. 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 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 WMCA.

The Economic Intelligence Unit will annually monitor WMCA'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 WMCA.

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

- **Economic growth** – to improve 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

The key findings in the first 'state of the region' report that was published in 2017, the WMCA Annual Economic Review, are as follows:

- GVA continues to increase (up by £7 billion since 2013) – largest contributor to UK GVA - £87.5 billion - based on combined three LEP figures.
- Average wages are up – now £27,151, however average wage in the West Midlands is £1,062 lower than the UK average.
- West Midlands is home to 2 million jobs, an increase of 95,000 since 2013.
- In the West Midlands there are 14,805 youth claimants in total, increasing on the previous year. The WMCA needs to reduce youth claimants by 4,781 by 2030 to reach UK average. There is a similar trend for overall claimant count (was previously 5,000).

- The West Midlands has a growing business base with 145,410 businesses, 13,500 more since 2013 and 22,430 business births.
- Number of people with no qualifications has declined at a faster rate compared to England but the West Midlands still has a higher proportion of people with no qualifications than across England.
- In the West Midlands 774,300 people are qualified to degree level or equivalent (30.4%). This is an increase of 7,700 people on the year before.
- The estimate of how much the government's projected financial obligations in the West Midlands region exceeds its revenues, known as the 'fiscal gap' has widened since last year by £0.6 billion increasing from £3.9 billion to £4.5 billion – the deficit increase is primarily due to faster growth of expenditure than income in particular in Health and Social Protection expenditure.
- 4.1 million people live in the West Midlands, an increase of 60,000 people since 2013.
- Over 12,000 new homes were built last year - currently 1.7 million houses in the West Midlands.

The second 'state of the region' report will be published in summer 2018. The process of evaluating performance against WMCA's strategic objectives is constantly being developed in the light of evolving devolution commitments to central government.

8. Financial Performance

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

Table 2 set out overleaf shows the overall consolidated revenue position for the WMCA compared with the budget that was approved by the WMCA Board in February 2017 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 WMCA's finances are planned and managed throughout the year.

Table 2: West Midlands Combined Authority Revenue Outturn 2017/18

£ million	Original Budget	Actual	Variance
Transport Services	121.5	116.0	5.5
Combined Authority other services	4.3	4.0	0.3
Mayor's Office	0.4	0.4	-
Mayoral Election	5.0	4.3	0.7
Investment Programme	30.8	32.7	(1.9)
Contributions to reserves	-	5.3	(5.3)
Total Expenditure	**162.0**	**162.7**	**(0.7)**
Financed by:			
Transport Levy	121.5	121.5	-
Devolution Deal Grants	36.5	36.5	-
Constituent/Non-Constituent Members	1.9	1.9	-
Business rates growth	1.5	3.0	1.5
Investment income	0.6	0.3	(0.3)
Total Financing	**162.0**	**163.2**	**1.2**
Net	**-**	**0.5**	**0.5**

The table shows that the budget anticipated net expenditure of £162.0 million was principally funded from the Transport Levy, Devolution Deal grant, business rates growth and contributions from constituent and non-constituent members.

The actual position shows that net expenditure for the year was £0.7 million more than budgeted. This position includes a previously reported saving as a result of a change in the WMCA's Minimum Revenue Provision (MRP) policy (see note 2m on page 39) that was approved by the WMCA Board in November 2017, leading to a saving for the year of £4.8 million. The WMCA Board approved a transfer to reserves of the same amount in February 2018 that will be used to support the transport delivery budget during the period 2019/20 – 2021/22.

The remaining transport savings relate to concessions expenditure, primarily as a result of savings on the national bus concession scheme owing to lower patronage (£1.3 million) as well as savings within the local child concession scheme (£0.3 million) which was partially offset by an adverse variance within Rail and Metro Services due to funds being set aside for the mobilisation of Midland Metro Ltd, a wholly owned subsidiary of West Midlands Combined Authority, that will take over the operation of metro services in the West Midlands in June 2018 (£0.8 million).

The actual position also reflects a rebate granted to constituent authorities of £0.265 million approved by the WMCA in February 2018 that was returned to West Midlands Combined Authority to fund Mayoral costs.

Within the WMCA Operational Budget, a favourable variance on the Collective Investment Fund budget of £0.3 million is partially offset by the approved one off contribution to the successful Commonwealth Games bid of £0.25 million.

Savings in respect of the mayoral election budget of around £0.7 million owing to overall costs being lower than anticipated will be returned to the Gainshare reserve to fund future Investment Programme projects.

Within the Investment Programme, the variance relates to the reclassification of costs as capital spend both in the current year and 2016/17. This variation is fully funded within the programme.

WMCA 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, therefore considerable variations can arise.

WMCA spent £71.8 million on capital projects within the overall Capital Programme in 2017/18.

Major items of capital spend in the year were:

- Bilston Road Track Replacement **£14.1 million**
- Centenary Square Metro Extension **£11.2 million**
- Edgbaston Metro Extension **£10.5 million**
- Wolverhampton City Centre Metro Extension **£5.5 million**
- Wednesbury to Brierley Hill Metro Extension **£5.3 million**

The capital programme spend of £71.8 million was financed in the following way:

Table 3: Financing of Capital Expenditure 2017/18

£ Million	
Central Government grants	32.1
District/Local Enterprise Partnership (LEP) grants and contributions	7.0
3rd party contributions	4.9
Gainshare contribution	7.5
Borrowing	20.3
Total	**71.8**

9. Basis of preparation

The Statement of Accounts have been prepared under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) and are for the full year from 1 April 2017 to 31 March 2018.

The Statement of Accounts includes:

Comprehensive Income and Expenditure Statement
This statement shows the accounting cost of providing services in the year, according to the Code. An adjustment is required to be made between the accounting basis and the funding basis due to the different accounting treatments for capital grants and pension costs, further details of which are shown in the Movement in Reserves Statement.

There are two new line items, 'Mayor's office' and 'Elections', in the statement this year following the election of the first West Midlands Mayor in May 2017.

The line item previously referred to as 'Economic Development' has been renamed to 'Investment Programme' as these costs relate to the region's first Devolution Deal with Government to deliver a programme of infrastructure and other measures primarily designed to increase the economic growth of the region, with a specific focus on extracting maximum value from HS2 when the services commence in 2026.

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 as at the Balance Sheet date of the assets and liabilities of the WMCA. 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 WMCA generates and uses cash and cash equivalents by classifying the cash flows as operating, investing and financing activities.

10. Outlook

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

- Capital Financing Costs – during the year, WMCA opted to change the way it calculates MRP. The change was approved by the WMCA Board in November 2017. Further details of this change are set out in note 2m on page 39.The reduction in the MRP charge is for a 6 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 WMCA continues to face the ongoing pressure of the cost of pension provision. WMCA made advance payments during 2017/18 in respect of pension contributions for the three years to 2019/20 to partially mitigate the risk.

- 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.

- Mayor's budget and precept – complex arrangements exist in respect of raising additional resources through a mayoral precept. In February 2018, the West Midlands Combined Authority Board approved the inclusion of a Precept in 2019/20 and 2020/21 for Mayoral Office costs, Network Resilience and a contribution to the WMCA Investment Programme subject to further work between the Mayor and Constituent Authorities in 2018/19.

- WMCA's Investment Programme aims to deliver an ambitious programme of schemes totalling £8 billion that are aimed at driving inclusive economic growth in the West Midlands Region. Funding of the programme was agreed by the Constituent Authorities in 2015/16 and included a contribution from a future mayoral precept, a business rates supplement and the local share of business rates growth. Some of these revenues are yet to be secured.

- WMCA and its Constituent Authorities are working together to identify secured funding for the Investment Programme. A review has commenced through a Task and Finish Group to determine whether any rescheduling of Investment Programme commitments is required. The Task and Finish Group is responsible for taking forward the ranking and scheduling exercise that is expected to be endorsed by the WMCA Board in July 2018.

- The amendment to statutory regulations that extended WMCA borrowing powers to fund non-transport capital schemes was confirmed in May 2018. The WMCA borrowing cap agreed with HM Treasury is as follows:
    - 2018/19 £487.5 million
    - 2019/20 £662.9 million
    - 2020/21 £867.3 million

- WMCA are currently considering the introduction of a Business Rates Supplement in consultation with the Ministry of Housing, Communities and Local Government, the Local Enterprise Partnerships and West Midlands Finance Directors.

- 2017 saw the establishment of WMCA's wholly owned subsidiary, 'Midland Metro Ltd' 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 £50 million over the first 11 years which will be channelled back into the network for the benefit of passengers and the local economy.

- WMCA's first Devolution Deal included the transfer of adult skills funding, the Adult Education Budget, to WMCA. The indicative budget to fund provision of Adult Education in the region will be approximately £112 million. Full devolution of this funding is currently anticipated for the 2019/20 academic year although WMCA are expected to have influence over the allocation of the funding from the Summer of 2018.

- WMCA will be working with the Government, the Police and Crime Commissioner and West Midlands Fire and Rescue Service during 2018/19 to agree a detailed governance model and legislative timetable for incorporating the role and powers of the Police and Crime Commissioner and Fire Service Governance into the mayoralty.

- General fund balances are currently considered to be below recommended levels and opportunities to increase the level of general balances over the medium term will be considered when developing WMCA's Medium Term Financial Plans. This approach will enable the risk to be managed within WMCA, without creating volatility on the Transport for West Midlands' levy and will take into consideration the Constituent Authorities obligations to underwrite WMCA's financial position.

11. Directors and Senior Officers

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

Directors/Senior Officers	Title	Appointment/Resignation
Andy Street	Mayor and Chair	Appointed – 5 May 2017
Deborah Cadman	Chief Executive	Appointed – 18 September 2017
Gareth Bradford	Director of Housing and Regeneration	Appointed – 18 December 2017
Henry Kippin	Director of Public Service Reform	Appointed – 18 September 2017
James Aspinall	Director of Corporate Services	Left - 30 April 2017
Julia Goldsworthy	Director of Strategy	Appointed – 20 September 2017
Julie Nugent	Director of Productivity and Skills	Appointed – 18 December 2017
Keith Ireland	Clerk to the WMCA and Monitoring Officer	Resigned – 16 October 2017
Laura Shoaf	Managing Director, Transport for West Midlands	
Mark Taylor	Interim Director of Finance	Appointed - 3 April 2017 Resigned – 13 October 2017
Martin Reeves	Chief Executive	Resigned – 15 September 2017
Patrick White	Interim Director of Industrial Strategy	Appointed – 5 September 2017
Paul Dransfield	Investment Director	Resigned – 31 July 2017
Sean Pearce	Director of Finance	Appointed – 16 October 2017
Tim Martin	Clerk to the WMCA and Monitoring Officer	Appointed – 16 October 2017

Julia Goldsworthy started her maternity leave in December 2017 and during her absence, aspects of her role are being covered by Henry Kippin, Patrick White and Sean Pearce.

12. Post Balance Sheet Events

WMCA's wholly owned subsidiary 'Midland Metro Ltd' that was established in 2017 took over the day-to-day running of Midland Metro trams in the West Midlands region on 24 June 2018 with the aim of channelling profits back into the tram network for the benefit of passengers and the local economy.

The amendment to statutory regulations that extended WMCA borrowing powers to allow borrowing for non-transport capital schemes was confirmed on 4 May 2018.

13. Auditors

Grant Thornton (UK) LLP are the auditors of the West Midlands Combined Authority for 2017/18. 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: 20 July 2018

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 2017/18 were:

Period	Individual	Role
1 April 2017 - 30 April 2017	James Aspinall	Director of Corporate Services
1 May 2017 - 13 October 2017	Mark Taylor	Interim Director of Finance
16 October 2017 - Current	Sean Pearce	Director of Finance

(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 WMCA'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 (which includes Appendix 1 - West Midlands Integrated Transport Authority Pension Fund) gives a true and fair view of the financial position of West Midlands Combined Authority at the reporting date and of its income and expenditure for the year ended 31 March 2018.

Sean Pearce
Director of Finance and Responsible Finance Officer
Date: 20 July 2018

4. Approval of the Accounts

I certify that the Statement of Accounts covering the period 1 April 2017 to 31 March 2018 were approved by a resolution of the West Midlands Combined Authority Board on 20 July 2018.

Andy Street
Mayor and Chair of the West Midlands Combined Authority
Date: 20 July 2018

Scope of Responsibility

This Annual Governance Statement reflects the activities of West Midlands Combined Authority (WMCA) from 1 April 2017 to 31 March 2018.

The WMCA 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 WMCA 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 WMCA 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 four Observers of the WMCA. These are:

- Herefordshire Council
- The Marches LEP
- 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)

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

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

In discharging this overall responsibility, WMCA Leadership 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 WMCA 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 WMCA Governance Framework forms part of the Constitution and details the Boards and Committees which provide oversight and assurance.

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

The system of internal control is based on an ongoing process designed to 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.

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

Annual Governance Statement

This Annual Governance Statement meets the requirements of Regulation 3 of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement.

The West Midlands Combined 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 WMCA. The Head of Organisation Development deals with issues of conduct and generally promotes high standards among officers members. The Monitoring Officer deals with any issues relating to the Mayor and elected Members.

WMCA embeds standards of conduct and behaviour through promoting a culture with values:

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

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

Be driven
- We have a positive, proactive and a solution oriented attitude
- We 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 WMCA 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.

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

Our inclusivity work ensures we encourage engagement from all members of society.

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

The WMCA is working to achieve the priorities set out in the Devolution Deal that have been negotiated with Central Government. WMCA's purpose and vision are detailed in the Strategic Economic plan (SEP) and the Mayor's Renewal Plan.

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

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

WMCA 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.

An annual review communicates WMCA activities and achievements titled The Annual Business Plan.

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

The WMCA's work is within the context of the Devolution of powers from Central Government. The WMCA 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.

Decisions required are identified by the Leadership Team and taken through the necessary decision-making levels with all principle decisions being taken by WMCA Board. Performance reports and action plans are agreed by Board.

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

We identify and aim to address the development needs of members and officers in relation to their roles and support with appropriate induction and training.

Audit, Risk and Assurance Committee (ARAC) members have received finance training to allow them to understand financial accounts and reporting. WMCA Finance Team provided training to ARAC on pensions accounting and disclosures at its meeting on 19 January 2018. We provided further training on the West Midlands Combined Authority's overall accounting arrangements and financial statements on 16 March 2018. Overview and Scrutiny Committee Chairs and leading Members have participated in external training and events.

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.

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

A scheme of delegation is laid out in the Constitution.

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

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

WMCA is rigorous and transparent about decision making and the recording of decisions. The Overview and Scrutiny Committee reviews and challenges the work and decisions of WMCA amidst with policy review and development.

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

A robust assurance framework consistently ensures governance and process are independently reviewed and reported and the risks have been identified and are being adequately managed. Internal Audit provides the 'third line of defence' with the first line being policies, procedures and controls and the second being managers' own checks of the control environment. Professional advice and good quality information is provided to ensure those making decisions are provided with relevant information that is fit for purpose.

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

Arrangements are in place for "whistleblowing" and "counter-fraud" for receiving and investigating complaints from both officers and members of public.

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

The WMCA has implemented the WMCA Assurance Framework which was approved by Ministry of Housing, Communities and Local Government (MHCLG) (previously Department of Communities and Local Government (DCLG)) in July 2016.

The WMCA 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.

Currently being developed are new devolved funding schemes, for example Adult Education Budget and Housing, which will require their own Assurance Framework and signed off by the appropriate government department.

A checklist has been implemented for the arm's length companies of the WMCA 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 WMCA's activities.

Annual Review of Effectiveness of Governance Framework

The Opinion of the Head of Governance 2017/2018

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

The opinion is based on the results of an on-going programme of activities and review, the outcomes of which were considered by the Audit, Risk 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 the period 2017/2018 fifteen audits were undertaken. The majority of the finalised audits undertaken have been rated Substantial and Satisfactory with a number of issues identified as requiring improvement. Recommendations have been provided and will be followed up by the respective management teams and Internal Audit will further test the arrangements as part of their follow-on review activity that is undertaken for all audits findings.

As an integral part of agreeing devolution of powers to WMCA, the Assurance Framework was agreed by the Audit, Risk and Assurance Committee in March 2016 and approved by DCLG in July 2016 and has since been implemented. The framework reviews internal delivery and the work of WMCA delivery partners, to ensure work delivered adheres to policy and legislative requirements and management processes identify risks to delivery.

A total of 27 project assurance reviews have been undertaken by the Corporate Assurance Team in this period, covering 19 different projects. These projects follow the WMCA Gateway Project Methodology for minor projects.

Programme Assurance arrangements for major projects within the Investment Programme have continued to be undertaken in accordance to the approved WMCA Assurance Framework and project investment process. Technical Appraisal Panel provide initial assurance on submission of business cases for funding for Investment Programme funding. Covering the period October 2017 – March 2018, 11 business cases have been reviewed by Technical Appraisal Panel (TAP).

Progress of the 2017/18 annual business plan is monitored monthly by internal Management Boards with key risks impacting on its delivery being escalated to the corporate risk register.

Regular risk management review meetings are now in place across all WMCA activities including Commissions to enable full visibility of key risks having the potential to impact on the organisation.

There are a total of 11 operational Risk Registers feeding into the WMCA Strategic Risk Register with regular meetings in place with the management team of each business area to monitor the status of risks and to ascertain the level of risk exposure in each of these areas to determine the assurance conclusions.

The successes of the WMCA includes the successful appointment of the elected Mayor, Chief Executive Officer and Leadership Team. The WMCA is one of England's Combined Authorities to successfully negotiate a further devolution deal.

The WMCA 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 WMCA and structures adjusted to reflect these pressures accordingly.

Conclusion

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

On behalf of the West Midlands Combined Authority

Andy Street
Mayor and Chair of the West Midlands Combined Authority
Date: 20 July 2018

Deborah Cadman
Chief Executive
Date: 20 July 2018

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 the West Midlands Combined Authority (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves, the Balance Sheet, the Cashflow Statement, and 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; 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 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.

Who we are reporting to

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.

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 Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about 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.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 2 to 76 and Appendix 1, other than the financial statements, our auditor's report thereon and our auditor's report on the Authority's pension fund financial statements. 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 Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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)' 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 have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities set out on pages 16 and 17, 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 Director of Finance. The Director of Finance 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 2017/18, which give a true and fair view, and for such internal control as the

Director of Finance 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 Director of Finance is responsible for assessing 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 the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit, Risk & Assurance Committee is Those Charged with Governance.

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 November 2017, 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 2018.

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 November 2017, 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 2018.

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 - *Delay in certification of completion of the audit*

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in Appendix 1 to the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

GRANT PATTERSON
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

20 July 2018

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

		2016/2017					2017/2018
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
188,444	(44,744)	143,700	Transport services	7	182,773	(47,990)	134,783
2,235	(62)	2,173	Combined Authority other services	8	4,904	(785)	4,119
2,518	-	2,518	Investment Programme	9	7,712	-	7,712
-	-	-	Mayor's office	10	382	(19)	363
-	-	-	Elections	11	4,318	-	4,318
193,197	**(44,806)**	**148,391**	**Cost of services**		**200,089**	**(48,794)**	**151,295**
405	-	405	Other operating expenditure	12	3,086	-	3,086
12,151	(224)	11,927	Financing and investment income and expenditure	13	10,536	(297)	10,239
45,759	(234,081)	(188,322)	Taxation and non-specific grant income and expenditure	14	44,237	(261,632)	(217,395)
251,512	**(279,111)**	**(27,599)**	**(Surplus) or deficit on provision of services**		**257,948**	**(310,723)**	**(52,775)**
		(7,065)	(Surplus) or deficit on revaluation of property, plant and equipment	30			-
		(37,980)	Remeasurement of the net defined benefit liability	32			(5,660)
		(45,045)	**Other Comprehensive Income and Expenditure**				**(5,660)**
		(72,644)	**Total Comprehensive Income and Expenditure**				**(58,435)**
		28,647	Adjustments between funding and accounting basis under regulations	5			46,600
		37,980	Transfer to Pensions Reserve	32			5,660
		7,065	Transfer to Capital Adjustment Account	30			-
		(340)	Transfers to/from Earmarked Reserves	29			5,694
		708	**(Surplus) or deficit for the year under funding basis**				**(481)**

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the WMCA, 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	Revaluation Reserve £'000	Capital Adjustment Account £'000	Pensions Reserve £'000	Accumulated Absences Account £'000	Total Unusable Reserves £'000	Total reserves £'000
Balance at 31 March 2016	**2,522**	**18,655**	**21,177**	**247**	**21,424**	**7,377**	**41,106**	**(96,929)**	**(271)**	**(48,717)**	**(27,293)**
Movements in reserves during 2016/17											
Total comprehensive income and expenditure	27,599	-	27,599	-	27,599	7,065	-	37,980	-	45,045	72,644
Adjustments between accounting basis and funding basis under regulations (note 5b)	(28,647)	29,952	1,305	-	1,305	(213)	(2,918)	1,783	43	(1,305)	-
Increase or (decrease) in 2016/17 before transfer to earmarked reserves	**(1,048)**	**29,952**	**28,904**	**-**	**28,904**	**6,852**	**(2,918)**	**39,763**	**43**	**43,740**	**72,644**
Transfers to/(from) earmarked reserves	340	(340)	-	-	-	(7,065)	7,065	-	-	-	-
Balance at 31 March 2017 carried forward	**1,814**	**48,267**	**50,081**	**247**	**50,328**	**7,164**	**45,253**	**(57,166)**	**(228)**	**(4,977)**	**45,351**
Movements in reserves during 2017/18											
Total comprehensive income and expenditure	52,775	-	52,775	-	52,775	-	-	5,660	-	5,660	58,435
Adjustments between accounting basis and funding basis under regulations (note 5b)	(46,600)	28,395	(18,205)	-	(18,205)	(211)	22,364	(3,871)	(77)	18,205	-
Increase or (decrease) in 2017/18 before transfer to earmarked reserves	**6,175**	**28,395**	**34,570**	**-**	**34,570**	**(211)**	**22,364**	**1,789**	**(77)**	**23,865**	**58,435**
Transfers to/(from) earmarked reserves	(5,694)	5,694	-	-	-	-	-	-	-	-	-
Balance at 31 March 2018 carried forward	**2,295**	**82,356**	**84,651**	**247**	**84,898**	**6,953**	**67,617**	**(55,377)**	**(305)**	**18,888**	**103,786**

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

	Notes	2018 £'000	2017 £'000
Intangible assets	19	-	-
Property, plant and equipment	20	294,722	259,802
Long-term assets		**294,722**	**259,802**
Short-term investments	21	11,000	22,000
Short-term debtors	22	31,960	25,634
Cash and cash equivalents	23	38,255	28,303
Current assets		**81,215**	**75,937**
Short-term borrowing	24	(25,561)	(7,663)
Finance lease liabilities	25	-	(1,684)
Short-term creditors	26	(41,013)	(47,086)
Provisions	27	(5,548)	(5,803)
Grants receipts in advance - revenue	15	(4,201)	(1,226)
Transferred debt	28	(688)	(626)
Current liabilities		**(77,011)**	**(64,088)**
Net current assets/(liabilities)		**4,204**	**11,849**
Long-term borrowing	24	(129,100)	(152,416)
Finance lease liabilities	25	-	(991)
Provisions	27	(1,000)	(1,000)
Grants receipts in advance - capital	15	(7,642)	(6,854)
Transferred debt	28	(7,185)	(7,873)
Net pension liability	32	(50,213)	(57,166)
Long-term liabilities		**(195,140)**	**(226,300)**
Net assets/(liabilities)		**103,786**	**45,351**
General Fund Balance	29	2,295	1,814
Earmarked Reserves	29	82,356	48,267
Capital Receipts Reserve	29	247	247
Usable reserves		**84,898**	**50,328**
Revaluation Reserve	30	6,953	7,164
Capital Adjustment Account	30	67,617	45,253
Pensions Reserve	30	(55,377)	(57,166)
Accumulated Absences Account	30	(305)	(228)
Unusable reserves		**18,888**	**(4,977)**
Total reserves		**103,786**	**45,351**

This financial report replaces the unaudited financial report certified by Sean Pearce on 8 May 2018. They were considered by the Audit, Risk and Assurance Committee on 21 June 2018 and approved for issue by the West Midlands Combined Authority Board on 20 July 2018. Events after the Balance Sheet date have been considered up to the date of approval.

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

	2018 £'000	2017 £'000
Net (deficit)/surplus on the provision of services	52,775	27,599
Adjustments to net surplus or deficit on the provision of services for non-cash movements		
Depreciation and impairment of non-current assets	15,467	15,508
Net amounts of non-current assets written off on disposal	3,086	405
Non-current assets transferred to provision of services	84	612
Change in pensions liability	(1,293)	4,517
(Increase)/decrease in short-term debtors	(6,326)	169
(Decrease)/increase in short-term creditors	(6,073)	10,242
(Decrease)/increase in provisions	(255)	(494)
Net interest payable	8,959	9,472
Interest paid	(9,372)	(9,826)
Interest received	297	224
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants received	(95,141)	(68,584)
Capital grants paid	44,237	45,759
Net cash flows from operating activities	**6,445**	**35,603**
Investing activities		
Purchase of property, plant and equipment	(53,557)	(23,367)
Capital grants received for the purchase of property, plant and equipment	50,904	22,825
Increase/(decrease) in short-term and long-term investments	11,000	(22,000)
Net cash flows from investing activities	**8,347**	**(22,542)**
Financing activities		
Payment of finance lease liabilities	(2,675)	(1,649)
Increase/(decrease) in grants receipts in advance	3,763	(6,596)
Repayment of loans	(5,302)	(5,291)
Transferred debt - repayment of principal	(626)	(569)
Net cash flows from financing activities	**(4,840)**	**(14,105)**
Net increase or decrease in cash and cash equivalents	**9,952**	**(1,044)**
Cash and cash equivalents at 1 April	28,303	29,347
Cash and cash equivalents at 31 March (note 23)	**38,255**	**28,303**

Notes Index

1. Basis of preparation

a) General principles

The Statement of Accounts summarises WMCA's transactions for the 2017/18 financial year and its position as at 31 March 2018. The WMCA 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 2017/18 (the Code), supported by International Financial Reporting Standards (IFRS).

b) Basis of preparation

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

c) Merger accounting

The 2016/17 financial statements were prepared as a 'Transfer by Merger' under the Code following the transfer of all functions, property, rights or liabilities of the West Midlands Transport Authority (ITA) and the West Midlands Passenger Transport Executive (PTE) to the WMCA under the provisions of the West Midlands Combined Authority Order 653/2016. This therefore applies to comparatives only.

d) Going concern

The accounts of the WMCA have been prepared on a going concern basis as it is considered by the Mayor that the activities will continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. The transfer under the Order was deemed to be a transfer of services under combinations of public sector bodies and therefore the presumption of going concern continues in accordance with the Code.

2. Significant accounting policies

a) Consolidation

The accounts of Centro Properties Limited, Midlands Development Capital Limited, Midland Metro Limited, Midland Metro (Two) Limited, Network West Midlands Limited, West Midlands Development Capital Limited which are subsidiaries of the WMCA and its associate, West Midlands Rail Limited have not been consolidated with those of the WMCA because the companies are either dormant and do not hold any assets or liabilities or are not material (see note 21 on investments).

b) Taxation

Corporation, income and capital gains tax

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

Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

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

The net amount of VAT recoverable from HMRC, or payable to the WMCA 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 where the WMCA is acting as a principal is included within transport services in the Comprehensive Income and Expenditure Statement.

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

d) Government grants and other contributions

Grants and contributions are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement, except to the extent that the grant or contribution has a condition that the WMCA 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 WMCA 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 WMCA makes payments of capital grants and contributions to Constituent Authorities and other organisations carrying out economic development and regeneration functions on behalf of the WMCA. These are included within REFCUS.

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

f) Pensions scheme

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

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

g) Financial assets

The WMCA's financial assets include trade debtors, short-term investments and cash and cash equivalents. Such financial assets are treated as loans and receivables and are recognised initially at cost.

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

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

h) Financial liabilities

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

Financial liabilities are recognised initially at cost. Subsequent to initial recognition loans and borrowings are measured at amortised cost using the effective interest method. 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 WMCA 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 2017/18, 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 WMCA has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

i) Property, plant and equipment

Recognition and measurement

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

All other assets are measured at 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 WMCA does not have a de minimis level for capitalisation. Each capital project is reviewed on an individual basis and the costs considered for capitalisation. Non-enhancing expenditure is written off to the Comprehensive Income and Expenditure Statement.

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

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

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

Depreciation

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

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

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

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

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

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

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

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

k) Impairment

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

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

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

l) Provisions and contingent liabilities

Provisions are recognised when the WMCA 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 WMCA 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 WMCA. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

m) Minimum Revenue Provision

Capital Finance Regulations require the WMCA 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 WMCA 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 WMCA 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 WMCA.

During the year, the methodology for calculating MRP was changed from an equal instalment to an annuity basis, to better reflect the time value of money and the likely increase in benefits in later years due to the type of assets held, which are mainly community assets which exist as part of an increasingly complex and better connected public transport network.

n) Events After the Reporting Period

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

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

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

o) Prior Period Adjustments

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

The accounting treatment for the transfer to the WMCA as a "Transfer by Merger" as set out in note 1 (c) was a critical judgement made by the WMCA Board in relation to the preparation of the 2016/17 accounts and is therefore pertinent to the comparatives of these 2017/18 financial statements.

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 items in the Balance Sheet at 31 March 2018 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

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

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

The effects of changes in individual assumptions have been measured by the funds actuaries in their 2018 IAS 19 valuation report:

- A 0.1% p.a. increase in the discount rate will reduce the pension fund liability by £4.204m.
- A 0.1% p.a. decrease in the discount rate will increase the pension fund liability by £4.267m.
- An increase of life expectancy at retirement by 1 year will increase the pension fund liability by £12.414m.
- A decrease of life expectancy at retirement by 1 year will decrease the pension fund liability by £11.916m.
- 0.1% p.a. increase in inflation will increase the pension fund liability by £3.892m.
- 0.1% p.a. decrease in inflation will decrease the pension fund liability by £3.840m.

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. For the 2017/18 financial year, the applicable date will be 1 January 2018. The relevant standards are:
1. IFRS 9 Financial Instruments issued in July 2014 effective 1 January 2018
2. IFRS 15 Revenue contracts from customers issued in May 2014 effective 1 January 2018

The WMCA will adopt IFRS 9 with effect from 1 April 2018. The main changes include the reclassification of financial assets and the earlier recognition of the impairment of financial assets.

The WMCA does not expect the reclassification changes to have a material impact upon the financial statements because the majority of its financial assets will retain the same measurement.

The WMCA does not expect the impairment changes to have a material impact upon the financial statements because the impairment charge will be immaterial for its treasury management assets and it already makes a provision for doubtful debts on its trade receivables.

The WMCA will adopt IFRS 15 (which replaces IAS 18 Revenue and IAS 11 Construction Contacts) with effect from 1 April 2018 and does not expect to have a material impact upon the financial statements. The main changes include the new definition of income to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services. Income includes both revenue arising in the course of normal operating activities of an authority and gains such as the revaluation of property, plant and equipment.

5. Expenditure and Funding Analysis

(a) Expenditure and Funding Analysis

The Expenditure and Funding analysis shows how annual expenditure is used and funded from resources (transport levy, government grants, constituent and non-constituent contributions) by the WMCA 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 WMCA's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

		2016/2017				2017/2018
Net expenditure chargeable to the General Fund	Adjustments between funding and accounting basis (note 5b)	Net expenditure in the Comprehensive Income and Expenditure Statement		Net expenditure chargeable to the General Fund	Adjustments between funding and accounting basis (note 5b)	Net expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
116,774	26,926	143,700	Transport services	106,295	28,488	134,783
2,173	-	2,173	Combined Authority other services	4,148	(29)	4,119
2,518	-	2,518	Investment Programme	6,903	809	7,712
-	-	-	Mayor's office	363	-	363
-	-	-	Elections	4,318	-	4,318
121,465	**26,926**	**148,391**	**Cost of services**	**122,027**	**29,268**	**151,295**
-	405	405	Other operating expenditure	-	3,086	3,086
9,472	2,455	11,927	Financing and investment income and expenditure	8,959	1,280	10,239
(129,889)	(58,433)	(188,322)	Taxation and non-specific grant income and expenditure	(137,161)	(80,234)	(217,395)
1,048	**(28,647)**	**(27,599)**	**(Surplus) or deficit on provision of services**	**(6,175)**	**(46,600)**	**(52,775)**
(2,522)			Opening General Fund balance	(1,814)		
(340)			Transfers to/from Earmarked Reserves	5,694		
(1,814)			**Closing General Fund balance**	**(2,295)**		

(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 2017/18

	Adjustments for capital purposes				Pensions	Accumulated	Total
	Depreciation/ loss on disposal	REFCUS	Grants/ contributions	Financing	adjustments	Absences Account	adjustments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transport services	15,467	10,562	964	(1,173)	2,591	77	28,488
Combined Authority other services	-	-	(29)	-	-	-	(29)
Investment Programme	-	8,325	-	(7,516)	-	-	809
Mayor's office	-	-	-	-	-	-	-
Elections	-	-	-	-	-	-	-
Net cost of services	**15,467**	**18,887**	**935**	**(8,689)**	**2,591**	**77**	**29,268**
Other operating expenditure	3,086	-	-	-	-	-	3,086
Financing and investment income and expenditure	-	-	-	-	1,280	-	1,280
Taxation and non-specific grant income and expenditure	-	-	(80,234)	-	-	-	(80,234)
(Surplus) or deficit on provision of services	**18,553**	**18,887**	**(79,299)**	**(8,689)**	**3,871**	**77**	**(46,600)**

Prior year comparatives

	Adjustments for capital purposes				Pensions	Accumulated	Total
	Depreciation/ loss on disposal	REFCUS	Grants/ contributions	Financing	adjustments	Absences Account	adjustments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transport services	15,508	15,353	5,827	(5,481)	(4,238)	(43)	26,926
Combined Authority other services	-	-	-	-	-	-	-
Investment Programme	-	-	-	-	-	-	-
Net cost of services	**15,508**	**15,353**	**5,827**	**(5,481)**	**(4,238)**	**(43)**	**26,926**
Other operating expenditure	405	-	-	-	-	-	405
Financing and investment income and expenditure	-	-	-	-	2,455	-	2,455
Taxation and non-specific grant income and expenditure	-	-	(58,433)	-	-	-	(58,433)
(Surplus) or deficit on provision of services	**15,913**	**15,353**	**(52,606)**	**(5,481)**	**(1,783)**	**(43)**	**(28,647)**

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

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

As the WMCA is considered a local authority following its existence by virtue of the Order, it has applied the 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. Due to the adoption of the "Transfer by Merger" accounting, immaterial changes were made to the comparatives to ensure consistency in the accounting treatment across both years i.e. 2016/17 and 2017/18.

6. Expenditure and income analysed by nature

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

	2017/18 £'000	2016/17 £'000
Expenditure		
Employee benefits expenses	16,741	14,905
Other service expenses	145,603	145,369
Pension	4,671	4,517
Depreciation, amortisation and impairment	15,467	15,508
REFCUS	18,887	15,353
Loss on disposal of non-current assets	3,086	405
Interest payments	9,256	9,696
	213,711	205,753
Income		
Fees and charges and other service income	(41,155)	(41,017)
Government revenue grants and contributions	(44,139)	(40,289)
Local Authority business rates growth and contributions	(8,449)	(4,167)
Levies	(121,542)	(124,830)
Capital grants and contributions (net of payments)	(50,904)	(22,825)
Interest and investment income	(297)	(224)
	(266,486)	(233,352)
Surplus on provision of services	**(52,775)**	**(27,599)**

7. Transport services

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

Analysis for 2017/18	Gross Expenditure £'000	Grants Received £'000	Other Income £'000	Net Expenditure £'000
Concessions	65,343	-	(452)	64,891
Bus Services	29,356	(1,969)	(6,737)	20,650
Rail and Metro Services	5,749	-	(1,593)	4,156
Fares and Ticketing*	29,668	-	(29,668)	-
Integration	8,758	-	(2,018)	6,740
Network Resilience	93	-	(17)	76
Business Support Costs	4,240	-	(322)	3,918
Policy and Strategy and Elected Member Services	2,106	-	(70)	2,036
LSTF/Midlands Connect/BBAF Programmes	6,108	(5,964)	(144)	-
Transport Development	1,500	-	-	1,500
Finance Charges	1,021	-	-	1,021
Deregulation Pension Costs	1,307	-	-	1,307
Net expenditure chargeable to the General Fund	155,249	(7,933)	(41,021)	106,295
Adjustments between funding and accounting basis (note 5)	27,524	964	-	28,488
Per Comprehensive Income and Expenditure Statement	**182,773**	**(6,969)**	**(41,021)**	**134,783**

Comparatives for 2016/17	Gross Expenditure £'000	Grants Received £'000	Other Income £'000	Net Expenditure £'000
Concessions	68,496	-	(469)	68,027
Bus Services	28,684	(1,793)	(6,857)	20,034
Rail and Metro Services	4,007	-	(1,145)	2,862
Fares and Ticketing *	30,627	-	(30,627)	-
Integration	8,491	(363)	(1,588)	6,540
Business Support Costs	4,292	(100)	(286)	3,906
Policy and Strategy and Elected Member Services	1,785	-	(45)	1,740
LSTF/Midlands Connect/BBAF Programmes	7,298	(7,298)	-	-
Finance Charges	6,811	-	-	6,811
Deregulation Pension Costs	6,854	-	-	6,854
Net expenditure chargeable to the General Fund	167,345	(9,554)	(41,017)	116,774
Adjustments between funding and accounting basis (note 5)	21,099	5,827	-	26,926
Per Comprehensive Income and Expenditure Statement	**188,444**	**(3,727)**	**(41,017)**	**143,700**

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

8. Combined Authority other services

Analysis for 2017/18	Gross Expenditure £'000	Grants Received £'000	Other Income £'000	Net Expenditure £'000
Black Country Economic Intelligence Unit	240	-	-	240
Collective Investment Fund	(42)	-	-	(42)
Communications	314	-	-	314
Culture and Tourism	38	-	-	38
Growth Company	1,137	-	-	1,137
Housing and Land Commission	302	(158)	-	144
Mental Health Commission	325	-	(115)	210
Productivity and Skills Commission	391	-	-	391
Programme, Policy and Governance	1,169	-	-	1,169
Individual Placement Support	483	(483)	-	-
Public Service Reform	467	-	-	467
Transport	80	-	-	80
Net expenditure chargeable to the General Fund	4,904	(641)	(115)	4,148
Adjustments between funding and accounting basis (note 5)	-	(29)	-	(29)
Per Comprehensive Income and Expenditure Statement	**4,904**	**(670)**	**(115)**	**4,119**

Comparatives for 2016/17	Gross Expenditure £'000	Grants Received £'000	Other Income £'000	Net Expenditure £'000
Black Country Economic Intelligence Unit	-	-	-	-
Collective Investment Fund	292	-	-	292
Communications	152	-	-	152
Culture and Tourism	16	-	-	16
Growth Company	-	-	-	-
Housing and Land Commission	323	-	-	323
Mental Health Commission	294	(62)	-	232
Productivity and Skills Commission	30	-	-	30
Programme, Policy and Governance	764	-	-	764
Individual Placement Support	-	-	-	-
Public Service Reform	247	-	-	247
Transport	117	-	-	117
Net expenditure chargeable to the General Fund	2,235	(62)	-	2,173
Adjustments between funding and accounting basis (note 5)	-	-	-	-
Per Comprehensive Income and Expenditure Statement	**2,235**	**(62)**	**-**	**2,173**

9. Investment programme

	2017/18 £'000	2016/17 £'000
Revenue costs of project and programme delivery	6,520	2,493
Programme resource	383	25
Net expenditure chargeable to the General Fund	6,903	2,518
Adjustments between funding and accounting basis (note 5)	809	-
Per Comprehensive Income and Expenditure Statement	**7,712**	**2,518**

10. Mayor's office

	2017/18 £'000	2016/17 £'000
Staff	312	-
Premises and Services	24	-
Promotions, Information and Initiatives	20	-
Travel and Subsistence	26	-
Gross expenditure	382	-
Income:		
Other income	(19)	-
Gross income	(19)	-
Per Comprehensive Income and Expenditure Statement	**363**	-

This is the first year of the Mayor's office and therefore there are no prior year comparatives.

11. Elections

	2017/18 £'000	2016/17 £'000
Postage, Printing and Office Supplies	687	-
Promotions, Information and Initiatives	745	-
Election Costs	2,886	-
Gross expenditure	4,318	-
Per Comprehensive Income and Expenditure Statement	**4,318**	-

The election costs for the first West Midlands Mayor have been funded by the WMCA. It is anticipated that the majority of the costs of the next mayoral election in 2020 will be funded by the Constituent Authorities, subject to those Constituent Authorities being able to incorporate the West Midlands Mayoral election into their own election process.

12. Other operating expenditure

	2017/18 £'000	2016/17 £'000
Loss on disposal of property, plant and equipment	3,086	405
Total	**3,086**	**405**

The loss on disposal of property, plant and equipment relates to the ongoing replacement of bus shelters and the upgrade of the Midland Metro system including the historic trams which are fully funded from grants.

13. Financing and investment income and expenditure

	2017/18 £'000	2016/17 £'000
Interest payable and similar charges on borrowings:		
PWLB	8,340	8,730
Barclays	403	404
Interest payable on the former transferred debt	513	562
Net interest on the net defined benefit liability (note 32)	1,280	2,455
	10,536	12,151
Interest receivable and similar income	(297)	(224)
Total	**10,239**	**11,927**

14. Taxation and non-specific grant income and expenditure

	2017/18 £'000	2016/17 £'000
Transport levy from the West Midlands districts*	121,542	124,830
Gainshare contribution - MHCLG	36,500	36,500
Business rates growth	6,600	1,500
Constituent, non-constituent and observers contributions*	1,849	2,667
Capital grants and contributions (note 15)	95,141	68,584
Gross income	261,632	234,081
Capital grants paid	(44,237)	(45,759)
Total	**217,395**	**188,322**

*An analysis of the transport levy and constituent and non-constituent member contributions by district is shown in note 38 Related party disclosures.

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

The Constituent Authorities agreed the principle of the WMCA being the recipient of a share of Business Rates Growth across the constituent geography, which is to be used to fund part of the Investment Programme. The values above include the agreed share for 2017/18, payable by local authorities in addition to a one-off payment from the Ministry of Housing, Communities and Local Government (MHCLG) in relation to calculated Business Rates Growth for the 2016/17 financial year.

15. Government and other grant income

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

	2017/18 £'000	2016/17 £'000
Revenue grants credited to cost of services		
Bus Service Operator Grant - DfT	1,969	1,793
Health-led Employment Trials - Department for Work and Pensions	512	62
Housing Package - MHCLG	158	-
Local Sustainable Transport Fund - DfT	-	549
Midlands Connect Programme - DfT	5,000	545
Smart Ticketing	-	780
Other	-	60
Total	**7,639**	**3,789**
Analysed between the following segments:		
Transport services (note 7)	6,969	3,727
Combined Authority other services (note 8)	670	62
Total	**7,639**	**3,789**

	2017/18 £'000	2016/17 £'000
Capital grants and contributions credited to taxation and non-specific grant income		
Integrated Transport Block - DfT	16,669	23,008
Highways Maintenance Incentive Fund - DfT	1,393	913
Highways Capital Maintenance - DfT	14,486	14,939
Highways Maintenance Challenge Fund - DfT	13,989	13,642
Pot Hole Fund - DfT	1,223	-
Local Authority Major Project - DfT	28,671	-
National Productivity Investment Fund (NPIF) - DfT	5,788	-
Clean Vehicle Fund - DfT	-	486
Local Sustainability Transport Fund - DfT	-	201
ITSO Smartcard - DfT	-	41
Co-Op Intelligent Transport - DfT	284	-
Enterprize Zone - Birmingham City Council	4,587	6,263
Local Growth Fund - BC LEP	1,834	5,615
Local Growth Fund - GBS LEP	4,444	3,111
3rd Party Contributions	271	108
Ring and Ride vehicles	577	215
Other	925	42
Total	**95,141**	**68,584**

WMCA 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 as follows:

	2018 £'000	2017 £'000
Grants received in advance - capital		
Integrated Transport Block - DfT	2,516	1,657
Local Growth Fund - GBS LEP/BC LEP	2,281	1,044
Sundry - DfT	129	591
Highways Maintenance Challenge Fund - DfT	-	3,203
Local Sustainability Transport Fund - DfT	271	277
Pot Hole Fund - DfT	1,359	-
Managing Change - DfT	211	-
Local Authority Major Project - DfT	875	-
3rd Party Contributions	-	82
	7,642	**6,854**
Grants received in advance - revenue		
Bus Service Operator Grant - DfT	1,050	1,226
Housing Package - MHCLG	1,842	-
Midlands Connect - DfT	919	-
Adult Education Budget - Department for Education	220	-
Wellbeing Premium Trial Implementation Phase - NHS England	120	-
3rd Party Contributions	50	-
	4,201	**1,226**

16. Officers' remuneration

The remuneration paid to senior employees during 2017/18 was as follows:

	Salary, fees and allowances £'000	Compensation for loss of office £'000	Pension contributions £'000	Total £'000
WMCA Staff				
Chief Executive [1]	101	-	13	114
Chief Operating Officer [2]	-	-	-	-
Clerk to the WMCA and Monitoring Officer [1]	83	-	11	94
Investment Director [2]	-	-	-	-
Director of Finance [1, 3]	54	-	7	61
Director of Housing and Regeneration [4]	32	-	4	36
Director of Public Service Reform [4]	47	-	3	50
Director of Productivity and Skills [4]	33	-	4	37
Director of Strategy [4]	26	-	3	29
Managing Director, Transport for West Midlands	121	-	16	137
Mayoral Team				
Mayor [4]	71	-	-	71
Deputy Mayor [5]	-	-	-	-
Chief of Staff [4]	64	-	8	72

[1] These posts were newly appointed during the year, therefore their pay does not reflect a full year's salary. The outgoing officers did not receive any remuneration from the WMCA and no amounts were re-charged from other District Authorities for their services during the period.

[2] Chief Operating Officer and Investment Director posts were deleted during the year as part of the restructure of the Leadership Team. They did not receive any remuneration from the WMCA and no amounts were re-charged from other District Authorities for their services during the period.

[3] The Director of Corporate Services was redesignated as Director of Finance with effect from May 2017.

[4] These are new posts appointed during the year, therefore their pay does not reflect a full year's salary.

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

Comparatives for 2016/17

		Salary, fees and allowances £'000	Compensation for loss of office £'000	Pension contributions £'000	Total £'000
For the period from 17th June 2016					
Chief Executive [1]	2016/17	-	-	-	-
Chief Operating Officer [1]	2016/17	-	-	-	-
Clerk to the WMCA and Monitoring Officer [2]	2016/17	-	-	-	-
Investment Director [1]	2016/17	-	-	-	-
Director of Corporate Services [3]	2016/17 (pro-rata)	97	99	12	208
Managing Director, Transport for West Midlands [4]	2016/17 (pro-rata)	92	-	11	103
For the period to 16th June 2016					
Interim Managing Director [3]	2016/17 (pro-rata)	26	-	3	29
Director of Integrated Mobility [5]	2016/17 (pro-rata)	20	-	2	22
Strategic Director for Transport West Midlands [4]	2016/17 (pro-rata)	24	-	3	27

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

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

[3] Director of Corporate Services was Interim Managing Director (PTE) and Treasurer (ITA) from 1 April to 16 June 2016.

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

[5] Director of Integrated Mobility post was deleted in July 2016 as part of the restructure when the WMCA came into existence. Remuneration for the remainder of the year is included in the bandings table below.

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

	2018 £'000	2017 £'000
£50,000 - £54,999	22	18
£55,000 - £59,999	9	6
£60,000 - £64,999	8	6
£65,000 - £69,999	1	3
£70,000 - £74,999	2	5
£75,000 - £79,999	3	2
£80,000 - £84,999	1	1
£85,000 - £89,999	-	1
£90,000 - £94,999	-	1
£95,000 - £99,999	1	1
£100,000 - £104,999	1	1
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	1	-
£120,000 - £124,999	-	1
£125,000 - £129,999	1	-
£130,000 - £134,999	-	-
£135,000 - £139,999	1	1

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

	Compulsory redundancies		**Total exit packages**		**Total cost of packages in each band**	
Cost band (including special payments)	**2018** No.	**2017** No.	**2018** No.	**2017** No.	**2018** £'000	**2017** £'000
£0 - £20,000	6	12	6	12	**56**	**75**
£20,001 - £40,000	2	3	2	3	**60**	**109**
£40,001 - £60,000	-	3	-	3	-	**140**
£60,001 - £80,000	-	1	-	1	-	**70**
£80,001 - £100,000	1	1	1	1	**92**	**99**
£100,001 +	1	5	1	5	**137**	**718**
	10	**25**	**10**	**25**	**345**	**1,211**

17. Members' allowances

	2018 £'000	**2017** £'000
Allowances	127	128
Expenses	5	10
Total	**132**	**138**

18. External audit costs

Charges relating to work undertaken by the external auditors:

	2018 £'000	2017 £'000
Fees payable to Grant Thornton LLP with regard to external audit services carried out by the appointed auditor for the year	47	47
Fees payable in respect of other services provided by Grant Thornton LLP during the year	3	19
Total	**50**	**66**

19. Intangible assets

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

20. Property, plant and equipment

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

Assets under construction largely consists of expenditure on the construction of the Midland Metro extension. Vehicles, plant and equipment include Ring and Ride vehicles with a carrying value of £1.555m (2017: £1.416m), which are included in the Balance Sheet in accordance with IFRIC 4. Additions during the year for Ring and Ride were £0.577m (2017: £0.216m) and are included within additions - other.

Leased assets

Assets with a value of £7.065m were acquired under a finance lease in 2016/17 in respect of Bromsgrove rail station and carpark. As the lease is at peppercorn rent, the assets were initially recognised at £nil, being the lower of the fair value of the assets acquired and the present value of the minimum lease payments. After initial recognition, the assets were valued at depreciated replacement cost (DRC) in accordance with WMCA's accounting policy on infrastructure assets. This valuation has been prepared by Bruton Knowles, an accredited independent valuer.

Revaluations

Land and buildings are revalued at least every five years at current value and a full valuation was last carried out as at 31 March 2014. 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. The desktop review at 31 March 2018 carried out by Bruton Knowles confirmed that there were no adjustments to be made.

Movements in 2017/18	Land and buildings £'000	Vehicles, plant and equipment £'000	Infra-structure assets £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 April 2017	3,576	41,729	340,356	32,735	418,396
Additions - capital programme	-	1,490	14,586	36,904	52,980
Additions - other	-	577	-	-	577
Transfers	-	564	236	(800)	-
Transfers to provision of services	-	-	-	(84)	(84)
Disposals	-	-	(8,619)	-	(8,619)
At 31 March 2018	**3,576**	**44,360**	**346,559**	**68,755**	**463,250**
Accumulated depreciation					
At 1 April 2017	293	27,354	130,947	-	158,594
Charge for the year	98	2,399	12,970	-	15,467
Disposals	-	-	(5,533)	-	(5,533)
At 31 March 2018	**391**	**29,753**	**138,384**	-	**168,528**
Net book value					
At 31 March 2018	3,185	14,607	208,175	68,755	294,722
At 31 March 2017	3,283	14,375	209,409	32,735	259,802

Comparative movements in 2016/17	Land and buildings £'000	Vehicles, plant and equipment £'000	Infra-structure assets £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 April 2016	3,576	38,697	306,277	44,100	392,650
Additions - capital programme	-	1,179	395	21,577	23,151
Additions - other	-	216	-	-	216
Revaluations	-	2,105	4,960	-	7,065
Transfers	-	508	31,822	(32,330)	-
Transfers to provision of services	-	-	-	(612)	(612)
Disposals	-	(976)	(3,098)	-	(4,074)
At 31 March 2017	**3,576**	**41,729**	**340,356**	**32,735**	**418,396**
Accumulated depreciation					
At 1 April 2015	195	25,740	120,820	-	146,755
Charge for the year	98	2,585	12,825	-	15,508
Disposals	-	(971)	(2,698)	-	(3,669)
At 31 March 2017	**293**	**27,354**	**130,947**	-	**158,594**
Net book value					
At 31 March 2017	3,283	14,375	209,409	32,735	259,802
At 31 March 2016	3,381	12,957	185,457	44,100	245,895

21. Investments

	Long-term		Current		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Investments in subsidiaries	-	-	-	-	-	-
Short-term deposits	-	-	11,000	22,000	11,000	22,000
Total	**-**	**-**	**11,000**	**22,000**	**11,000**	**22,000**

Short-term deposits for 2016/17 have been reclassified as current to ensure consistency across both years.

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

	Ownership	Share capital	Nature of business
Centro Properties Ltd	100%	£100	Dormant
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
West Midlands Growth Company Limited	5%	n/a - limited by guarantee	Trading
West Midlands Rail Limited	50%	n/a - limited by guarantee	Trading

Centro Properties Limited was incorporated under the Companies Act 2006 as a private limited company on 1 December 2009. The company was dissolved on 3 April 2018.

Midlands Development Capital Limited was incorporated under the Companies Act 2006 as a private limited company on 27 March 2017. This entity became a wholly-owned subsidiary of the WMCA on 19 December 2017.

Midland Metro Limited was incorporated under the Companies Act 2006 as a private limited company on 24 August 2017. The entity commenced trading in November 2017.

Midland Metro (Two) Limited was incorporated under the Companies Act 1985 as a private limited company on 16 March 1988. The entity changed its name from Midland Metro Limited on 24 August 2017.

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. This entity became a wholly-owned subsidiary of the WMCA on 26 October 2017.

West Midlands Rail Ltd was incorporated under the Companies Act 2006 as a private limited company (limited by guarantee) on 10 April 2014. The entity commenced trading on 10 December 2017.

22. Short-term debtors

	2018 £'000	2017 £'000
Trade debtors and accrued income	19,982	13,670
Other debtors	3,372	1,321
Prepayments	8,606	10,643
Total	**31,960**	**25,634**
Analysed between the following classes of debtors:		
Central government bodies	8,932	1,329
Other local authorities	10,440	6,367
Other entities and individuals	12,588	17,938
Total	**31,960**	**25,634**

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.

23. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	55	103
Short-term deposits	38,200	28,200
Altram refundable deposit	2,750	2,750
	41,005	**31,053**
Amount to be repaid to Altram	(2,750)	(2,750)
Total	**38,255**	**28,303**

Daily cash balances are invested overnight. The balance at 31 March 2018 represents monies held on deposit as at 31 March 2018 to be repaid on the next available banking day. Interest is earned at the respective short-term deposit rates.

The WMCA holds £2.750m (2017: £2.750m) on behalf of Altram, its private sector partner in the Midland Metro project, as a deposit against unforeseen circumstances. This sum is invested with the Debt Management Office (DMO) with any interest received repaid to Altram.

24. Borrowing

	2018 £'000	2017 £'000
Lender		
Public Works Loan Board (PWLB)	142,417	147,719
Barclays	10,000	10,000
Accrued interest payable	2,244	2,360
Total	**154,661**	**160,079**
Maturity		
Principle and accrued interest due within one year	25,561	7,663
1 - 2 years	5,328	23,317
2 - 5 years	6,062	11,021
5 - 10 years	2,070	1,991
Over 10 years	115,640	116,087
Principle due after more than one year	129,100	152,416
Total	**154,661**	**160,079**

The WMCA adopts a low risk treasury management approach seeking to maximise low interest loans when the opportunity arises. During the year, the WMCA did not undertake any new short-term borrowing (2017: nil). The amount of fixed rate debt is 100% (2017: 100%) with no variable rate debt (2017: nil).

The Certainty Rate was introduced by the Public Works Loans Board (PWLB) in November 2012, allowing WMCA to borrow at a reduction of 20 base points (bps) on the standard PWLB rate. The WMCA has continued to submit information required in order to be eligible for the Certainty Rate and be on the PWLB approved list of authorities who could access the preferential rates. Thus any future borrowing can be done at this preferential rate.

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.

25. Finance lease liabilities

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

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

	Minimum lease payments		Finance lease liabilities	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Within 1 year	-	1,732	-	1,684
Within 2 - 5 years	-	1,032	-	991
	-	2,764	-	2,675
Finance costs payable in future years	-	(89)	-	-
Total	-	**2,675**	-	**2,675**

26. Short-term creditors

	2018	2017
	£'000	£'000
Trade creditors and accruals	37,537	42,037
Taxes and social security	467	392
Payments received on account	3,009	4,657
	41,013	**47,086**
Analysed between the following classes of creditors:		
Central government bodies	1,545	941
Other local authorities	9,445	13,528
Other entities and individuals	30,023	32,617
Total	**41,013**	**47,086**

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.

27. Provisions

Current year movements	**Transport development**	**Buildings maintenance**	**Rail services/ insurance**	**Total**
	£'000	£'000	£'000	£'000
Balance at 1 April 2017	4,202	1,311	1,290	6,803
Additional provision	-	339	180	519
Release of provision	-	-	(58)	(58)
Amounts used	(460)	(236)	(20)	(716)
Balance at 31 March 2018	**3,742**	**1,414**	**1,392**	**6,548**
Current	3,742	414	1,392	5,548
Long-term	-	1,000	-	1,000
Total	**3,742**	**1,414**	**1,392**	**6,548**

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

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

Buildings maintenance
This has been provided to meet contractual obligations in respect of the WMCA'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.

28. 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.

	2018 £'000	2017 £'000
Balance at 1 April	8,499	9,068
Repayment in the year	(626)	(569)
Balance at 31 March	**7,873**	**8,499**
Due within one year	688	626
Due over one year	7,185	7,873
Total	**7,873**	**8,499**

29. 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 WMCA to meet unexpected short term requirements. Movements in the General Fund are detailed in the Movement in Reserves Statement.

Earmarked Reserves

Current year movements	Earmarked general fund £'000	Investment programme funding reserve £'000	Unapplied revenue grants £'000	Total £'000
Balance at 1 April 2017	9,195	35,608	3,464	48,267
Receivable in year:				
Gainshare contribution	-	36,500	-	36,500
Business rates growth	-	6,600	-	6,600
Other	-	-	5,512	5,512
Utilised in year	-	(13,770)	(6,447)	(20,217)
Net unapplied in year	-	29,330	(935)	28,395
Released in year to general reserves	(1,407)	-	-	(1,407)
Transfers in year from general reserves	7,101	-	-	7,101
Net transfer (to)/from general reserves	5,694	-	-	5,694
Balance at 31 March 2018	**14,889**	**64,938**	**2,529**	**82,356**

Prior year comparatives	Earmarked general fund £'000	Investment programme funding reserve £'000	Unapplied revenue grants £'000	Total £'000
Balance at 1 April 2016	9,364	-	9,291	18,655
Receivable in year:				
Gainshare contribution	-	36,500	-	36,500
Business rates growth	-	1,500	-	1,500
Other	171	-	1,934	2,105
Utilised in year	-	(2,392)	(7,761)	(10,153)
Net unapplied in year	171	35,608	(5,827)	29,952
Released in year to general reserves	(816)	-	-	(816)
Transfers in year from general reserves	476	-	-	476
Net transfer (to)/from general reserves	(340)	-	-	(340)
Balance at 31 March 2017	**9,195**	**35,608**	**3,464**	**48,267**

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 WMCA 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.

	2018 £'000	2017 £'000
Opening balance at 1 April	247	247
Closing balance at 31 March	**247**	**247**

30. 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.

	2018 £'000	2017 £'000
Opening balance at 1 April	7,164	7,377
Difference between current value depreciation and historical cost	(211)	(213)
Surplus on revaluation of property, plant and equipment (note 20)	-	7,065
Transfer to Capital Adjustment Account	-	(7,065)
Closing balance at 31 March	**6,953**	**7,164**

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).

	2018 £'000	2017 £'000
Opening balance at 1 April	45,253	41,106
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 20)	(15,467)	(15,508)
Adjusting amount written out of the Revaluation Reserve	211	213
Loss on disposal of property, plant and equipment (note 12)	(3,086)	(405)
Non-current assets transferred to provision of services (note 20)	(84)	(612)
Revenue expenditure funded from capital under statute (note 31)	(18,803)	(14,741)
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	44,549	22,654
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing in prior years	6,355	-
Statutory provision for the financing of capital investment charged against the General Fund (MRP - note 31)	400	4,590
Debt repayment charged against the General Fund (note 28)	626	569
Capital expenditure charged against the General Fund (note 31)	147	322
Capital expenditure funded by the Gainshare contribution (note 31)	7,516	-
Transfer from revaluation reserve	-	7,065
Closing balance at 31 March	**67,617**	**45,253**

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 WMCA 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.

	2018 £'000	2017 £'000
Opening balance at 1 April	57,166	96,929
Remeasurements (liabilities and assets)	(5,660)	(37,980)
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement	6,701	6,175
Employer's pension contributions payable in the year:		
Current year	(2,830)	(7,958)
Closing balance at 31 March	**55,377**	**57,166**

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.

	2018 £'000	2017 £'000
Opening balance at 1 April	228	271
Movement in the year	77	(43)
Closing balance at 31 March	**305**	**228**

31. Capital expenditure and capital financing

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

	2018 £'000	2017 £'000
Bus infrastructure	1,589	2,651
Rail infrastructure	6,107	1,849
Midland Metro	51,597	28,117
Sustainability	1,840	4,552
Key Routes Network	8,304	-
Regeneration	1,551	-
Other	795	723
Total capital expenditure	**71,783**	**37,892**
Property, plant and equipment (note 20)	52,980	23,151
Written off to cost of services - capital development/district schemes	18,803	14,741
	71,783	**37,892**
Funded by:		
Central Government grants	32,147	11,754
District/Local Enterprise Partnership (LEP) grants and contributions	6,966	4,575
3rd party contributions	4,859	6,109
Gainshare contribution	7,516	-
Borrowing	20,295	15,454
	71,783	**37,892**

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

	2018 £'000	2017 £'000
Opening Capital Financing Requirement	207,385	197,412
Capital investment		
Capital programme costs funded by borrowing	20,295	15,454
Sources of finance		
Minimum Revenue Provision (MRP)	(400)	(4,590)
Transferred debt repayment (note 28)	(626)	(569)
Capital expenditure charged to the General Fund	(147)	(322)
Capital grants received previously funded through borrowings	(6,355)	-
Closing Capital Financing Requirement	**220,152**	**207,385**
Explanation of movement in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	12,767	9,973
Increase in Capital Financing Requirement	**12,767**	**9,973**

32. Defined benefit pension scheme

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

An actuarial valuation of this fund was carried out by Barnett Waddingham LLP, an independent firm of actuaries in accordance with the Regulations as at 31 March 2016. Based on the results of this valuation, the actuaries set WMCA'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 WMCA over the average remaining service lives of the current members of the fund.

During the year a prepayment of employer's contributions of £5.164m was made for the two years to 2019/20 to take advantage of discounts available.

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

Calculation method

The figures as at 31 March 2018 are based on the 31 March 2016 formal valuation of the fund. Membership data as at 31 March 2016 was used to develop current funding requirements. Liabilities are based on benefit payment and contribution information provided by the fund's administrator as at 31 March 2018. 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 2018 is a deficit of £50.213m compared to a deficit of £57.166m at 31 March 2017. The deficit has been reduced by the prepayment of £5.164m for 2018/19 and 2019/20 contributions. As a result the pension liability does not agree to the pension reserve by that amount.

Movement in pension fund liability during the year

	2018 £'000	2017 £'000
Opening balance at 1 April	57,166	90,629
Employer's pension contributions payable in the year:		
Current year	(2,830)	(7,958)
Prepayment for 2018/19 and 2019/20	(5,164)	6,300
Post employment benefit charged to the surplus or deficit on provision of services:		
Current service cost	5,306	3,610
Administration expenses	115	110
Net interest cost	1,280	2,455
Remeasurements (liabilities and assets)	(5,660)	(37,980)
Closing balance at 31 March	**50,213**	**57,166**

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:

	2018 £'000	2017 £'000
Comprehensive Income and Expenditure Statement		
Cost of services		
Current service cost	5,306	3,610
Administration expenses	115	110
Financing and investment income and expenditure		
Net interest cost	1,280	2,455
Total post employment benefit charged to the surplus or deficit on provision of services	**6,701**	**6,175**
Remeasurements (liabilities and assets)	(5,660)	(37,980)
Total post employment benefit charged/(credited) to the Comprehensive Income and Expenditure Statement	**1,041**	**(31,805)**
Movement in Reserves Statement		
Reversal of net charges made to the surplus or deficit on provision of services for post employment benefits in accordance with the Code	(6,701)	(6,175)
Actual amount charged against the General Fund Balance for pensions in the year	2,830	7,958
	(3,871)	**1,783**

Assets and liabilities in relation to post-employment benefits

	2018 £'000	2017 £'000
Present value of scheme liabilities	(306,062)	(318,749)
Present value of scheme assets	255,849	261,583
Amounts recognised as liabilities	**(50,213)**	**(57,166)**

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

	2018 £'000	2017 £'000
Opening balance at 1 April	318,749	316,284
Current service cost	5,016	3,425
Interest cost	7,489	7,650
Change in demographic assumptions	-	(9,272)
Experience loss/(gain) on defined benefit obligation	-	(14,997)
Contributions by scheme participants	995	882
Remeasurements (liabilities)	(11,701)	28,991
Benefits paid	(14,776)	(14,399)
Past service costs/curtailments	290	185
Closing balance at 31 March	**306,062**	**318,749**

Reconciliation of fair value of the scheme assets

	2018 £'000	2017 £'000
Opening balance at 1 April	261,583	225,655
Interest on plan assets	6,209	5,195
Administration expenses	(115)	(110)
Remeasurements (assets)	(6,041)	32,795
Other actuarial gains/(losses)	-	9,907
Employer contributions paid - current year	2,830	1,658
Employer contributions paid - prepayment for 2018/19 and 2019/20	5,164	-
Contributions by scheme participants	995	882
Benefits paid	(14,776)	(14,399)
Closing balance at 31 March	**255,849**	**261,583**

The plan assets at the year end were as follows:

	2018 %	2018 £'000	2017 %	2017 £'000
Asset				
Equities	63.9	163,524	64.4	168,485
Gilts	7.3	18,696	8.1	21,232
Other bonds	3.8	9,788	4.1	10,839
Property	7.7	19,699	7.7	20,151
Cash/liquidity	2.5	6,296	2.9	7,466
Other	14.8	37,846	12.8	33,410
Total	**100.0**	**255,849**	**100.0**	**261,583**

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.

	2018	2017
Valuation assumptions		
Discount rate	2.5%	2.4%
Rate of salary increase	3.9%	4.0%
Rate of pension	2.4%	2.5%
Inflation assumption	2.4%	2.5%
Future life expectancies from age 65		
Retiring today:		
Males	21.9	21.8
Females	24.3	24.2
Retiring in 20 years:		
Males	24.0	23.9
Females	26.6	26.5

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

Five year history	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000
Present value of liabilities	(284,687)	(306,754)	(316,284)	(318,749)	(306,062)
Fair value of assets in the pension scheme	202,762	226,440	225,655	261,583	255,849
(Deficit)/surplus in the scheme	(81,925)	(80,314)	(90,629)	(57,166)	(50,213)
Difference between the expected and actual return on scheme assets	(7,523)	22,069	(7,765)	32,795	(6,041)
Percentage of scheme assets	-3.7%	9.7%	-3.4%	12.5%	-2.4%
Experience gains and (losses) on scheme liabilities	4,315	(22,941)	(12,058)	(28,991)	11,701
Percentage of scheme liabilities	1.5%	-7.5%	-3.8%	-9.1%	3.8%
Changes in actuarial assumptions	29,430	-	-	9,272	-
Percentage of scheme liabilities	10.3%	0.0%	0.0%	2.9%	0.0%
Net actuarial gain/(loss) recognised	26,222	(872)	(19,823)	13,076	5,660
Percentage of scheme liabilities	9.2%	-0.3%	-6.3%	4.1%	1.8%
Cumulative actuarial loss recognised	(73,206)	(74,078)	(93,901)	(80,825)	(75,165)

33. Financial risk management

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

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

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The WMCA 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 WMCA 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 WMCA's treasury management advisors. The criteria for these lending lists are set out in the Treasury Management Strategy report and credit ratings monitored constantly through the receipt of credit rating bulletins from its treasury management advisors. If a financial institution fails to meet the criteria they are removed from the official lending list. The lending list contains financial as well as duration limits to reduce risk. Minimal balances are held for daily cashflow management and any surplus funds are invested on the overnight money market with HSBC Bank plc.

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

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

	2018 £'000	2017 £'000
Trade debtors and accrued income (note 22)	19,982	13,670
Cash and short-term deposits (note 23)	41,005	31,053
Total	**60,987**	**44,723**

Liquidity risk
Liquidity risk covers the ease of access to finance. The WMCA has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The WMCA 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 WMCA 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 WMCA 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 WMCA is exposed to the risk of interest rate movements on its borrowings and investments. It manages those risks as follows:

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

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

Maturity analysis of financial liabilities
All trade and other payables are due to be paid in less than one year. The maturity profile of finance lease liabilities is shown in note 25.

34. Financial Instruments

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

	Long-term		Current		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets - loans and receivables						
Investments (note 21)	-	-	11,000	22,000	11,000	22,000
Short-term debtors (note 22)	-	-	19,982	13,670	19,982	13,670
Cash and cash equivalents (note 23)	-	-	38,255	28,303	38,255	28,303
Total financial assets	**-**	**-**	**69,237**	**63,973**	**69,237**	**63,973**
Financial liabilities at amortised cost						
Borrowings (note 24)	129,100	152,416	25,561	7,663	154,661	160,079
Finance lease liabilities (note 25)	-	991	-	1,684	-	2,675
Short-term creditors (note 26)	-	-	37,537	42,037	37,537	42,037
Transferred debt (note 28)	7,185	7,873	688	626	7,873	8,499
Total financial liabilities	**136,285**	**161,280**	**63,786**	**52,010**	**200,071**	**213,290**

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

			2017-18			2016-17
	Financial assets: loans and receivables	Financial liabilities at amortised cost	Total	Financial assets: loans and receivables	Financial liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest income (note 13)	(297)	-	(297)	(224)	-	(224)
Interest expense (note 13)	-	10,536	10,536	-	12,151	12,151
Net loss/(gain) for the year in the surplus or deficit on the provision of services	**(297)**	**10,536**	**10,239**	**(224)**	**12,151**	**11,927**

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

	31 March 2018		31 March 2017	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial assets - loans and receivables				
Investments	11,000	11,000	22,000	22,000
Short-term debtors	19,982	19,982	13,670	13,670
Cash and cash equivalents	38,255	38,255	28,303	28,303
Total financial assets	**69,237**	**69,237**	**63,973**	**63,973**
Financial liabilities at amortised cost				
Public Works Loan Board (PWLB)	144,557	206,759	149,971	221,188
Barclays	10,104	14,339	10,108	14,896
Total borrowings	**154,661**	**221,098**	**160,079**	**236,084**
Finance lease liabilities	-	-	2,675	2,675
Short-term creditors	37,537	37,537	42,037	42,037
Transferred debt	7,873	9,083	8,499	10,473
Total financial liabilities	**200,071**	**267,718**	**213,290**	**291,269**

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

Barclays: 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 0.80% to 2.41% 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 and LOBOs ranges from 1.47% to 2.05% and 1.98% respectively.

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.

35. Operating leases

Leases as lessee

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

Supported bus services - the WMCA has determined that the tendered service contracts of four (2017: 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 2018 are as follows:

	2018	2017
	£'000	£'000
Land and buildings		
Less than one year	458	237
Between two and five years	1,394	676
More than five years	3,005	3,115
	4,857	**4,028**
Supported bus services		
Total contract spend:		
Less than one year	638	735
Between two and five years	483	659
	1,121	**1,394**

Leases as lessor

The WMCA 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 2018 are as follows:

	2018	2017
	£'000	£'000
Land and buildings		
Less than one year	197	198
Between two and five years	547	564
More than five years	2,065	2,024
	2,809	**2,786**

36. Capital commitments

At 31 March 2018, the WMCA has entered into a number of contracts for the construction or enhancement of property, plant and equipment and future years for £106.790m (2017: £8.39m). The major commitments are listed in the table below:

	2018 £'000	2017 £'000
Longbridge Connectivity Package	3,013	-
Coventry City Centre South Regeneration	97,203	-
Metro Catenary Free	6,574	8,390
	106,790	**8,390**

37. Contingent liabilities and guarantees

The West Midlands Integrated Transport Authority 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 WMCA would be liable to meet any excess liabilities.

The pension fund was established by Government Regulation on 29 November 1991 and became active on 4 December 1991. The date of the last triennial actuarial valuation was 31 March 2016, the actuarial value was £569m. The valuation resulted in a deficit of £105m against the market value of £464m. As at 31 March 2018 the market value of the pension fund was £492m (2017: £502m).

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

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

38. Related party disclosures

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

Central Government
Central Government has significant influence over the general operations of the WMCA. It is responsible for providing the statutory framework within which the WMCA 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 2018 are set out in note 15.

Members
Members of the WMCA have direct control over the WMCA's financial and operating policies. The total of members allowances paid in 2017-18 is shown in note 17. 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 WMCA or co-opted to one of its committees.

There were no transactions with related parties during the year (2017: £113k income and £105k expenditure with companies in which three members had an interest). Prior year's transactions related to outgoing members.

Officers

During the year there were income transactions of £104k (2017: £45k) relating to rental income and payroll recharges, and professional consultancy fees of £172k (2017: £31k) with companies in which three (2017: two) officers had an interest. Transactions with these companies were conducted at arm's length. There were no outstanding balances as at 31 March 2018.

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

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

	Transport Levy		Contributions		LGF LEP funding	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Constituent authorities						
Birmingham City Council	47,667	48,955	213	405	-	-
City of Wolverhampton Council	10,912	11,245	212	305	-	-
Coventry City Council	14,815	14,999	213	305	-	-
Dudley MBC	13,576	14,037	213	305	-	-
Sandwell MBC	13,704	14,078	213	305	-	-
Solihull MBC	9,025	9,330	212	305	-	-
Walsall Council	11,843	12,186	212	305	-	4,814
Non-constituent authorities						
Black Country LEP	-	-	21	-	-	-
Cannock Chase District Council	-	-	21	25	-	-
Coventry and Warwickshire LEP	-	-	21	-	-	-
Greater Birmingham and Solihull LEP	-	-	21	-	-	-
North Warwickshire Borough Council	-	-	21	-	-	-
Nuneaton and Bedworth Borough Council	-	-	21	25	-	-
Redditch Borough Council	-	-	21	25	-	-
Rugby Borough Council	-	-	21	-	-	-
Shropshire Council	-	-	21	-	-	-
Stratford-on-Avon District Council	-	-	21	-	-	-
Tamworth Borough Council	-	-	21	25	-	-
Telford and Wrekin Council	-	-	21	25	-	-
Warwickshire County Council	-	-	21	-	-	-
Total	**121,542**	**124,830**	**1,761**	**2,360**	**-**	**4,814**

Funding paid by the WMCA to the District Councils:

	Devolved Transport Funding		Economic Regeneration	
	2017/18	2016/17	2017/18	2016/17
	£'000	£'000	£'000	£'000
Constituent authorities				
Birmingham City Council	7,644	7,687	451	108
City of Wolverhampton Council	6,245	6,509	-	-
Coventry City Council	4,741	5,747	17	-
Dudley MBC	7,875	7,400	-	-
Sandwell MBC	6,666	7,747	-	-
Solihull MBC	5,259	7,595	1,997	1,257
Walsall MBC	5,807	5,620	-	-
Total	**44,237**	**48,305**	**2,465**	**1,365**

Entities controlled or significantly influenced by the WMCA
During the year, the WMCA paid management fees of £75k to West Midlands Development Capital Limited, a wholly-owned subsidiary, for the management of the Brownfield Land and Property Development Fund.

West Midlands Rail Limited, a company limited by guarantee where the WMCA has 50% interest, received funding contributions of £43k.

Transactions with West Midlands Development Capital Limited and West Midlands Rail Limited were conducted at arm's length. There were no outstanding balances as at 31 March 2018.

39. Events after the Reporting Period

The Statement of Accounts were considered by the Audit, Risk and Assurance Committee on 21 June 2018 and approved for issue by the West Midlands Combined Authority Board on 20 July 2018. .

Midland Metro Limited, a wholly-owned subsidiary, was awarded a 15 year operations and maintenance contract for the Metro system in the West Midlands region which started on 24 June 2018. The financial statements and notes have not been adjusted for this event which took place after 31 March 2018 as it provides information that is relevant to an understanding of the authority's financial position but does not relate to condition at that date. However, it is anticipated that for the year ending 31 March 2019 the financial results of Midland Metro Limited will be consolidated into the group accounts of the West Midlands Combined Authority for the year then ended.

Accounting Standards
International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are the accounting standards that the WMCA 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.

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.

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 WMCA'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 WMCA 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.

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

APPENDIX 1

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

Financial Report

For the year ended 31 March 2018

Pension Scheme Registry (Pensions Regulator) 10175688

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Table of Contents

The following statements comprise the Financial Report for the West Midlands Integrated Transport Authority ('ITA') Pension Fund ('the Fund'). The accounts cover the financial year from 1 April 2017 to 31 March 2018.

This report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 published by the Chartered Institute of Public Finance and Accountancy.

The report is set out in the following order:

- **Introduction** which provides general information on the background of the Fund, management and advisors and officers of the Fund, and actuarial position.

- **Fund Account** which discloses the size and character of financial additions to, withdrawals from and changes to the value of the Fund during the accounting period, analysed between contributions and benefits, and returns on investments.

- **Net Assets Statement** which discloses the size and disposition of the net assets of the scheme at the end of the year.

- **Notes to the Fund Accounts** which gives supporting details and analysis concerning the contents of the financial statements.

Introduction

1. History of the Fund

The West Midlands Passenger Transport Authority Pension Fund was established on 29 November 1991 under the Local Government Superannuation (Miscellaneous Provisions) Regulations 1991. The Local Transport Act 2008 changed the names of all English Passenger Transport Authorities to Integrated Transport Authorities. This was effective from the 9 February 2009 under Statutory Instrument 2009 No. 107 (C.08), and the West Midlands Passenger Transport Authority Pension Fund was changed to the West Midlands Integrated Transport Pension Fund ('the Fund').

The West Midlands Integrated Transport Authority (ITA) was responsible for the administration of the Fund until 16 June 2016 when the responsibility passed to the West Midlands Combined Authority (WMCA) when it was established on 17 June 2016 under Statutory Instrument 2016 No 653 in exercise of the Local Democracy, Economic Development and Construction Act 2009. The effect of the order was that the WMCA was substituted for the ITA as the administering authority of the Fund. The City of Wolverhampton Council was appointed by the then ITA as agent to administer the Fund on its behalf. The name of the Fund remains unchanged. The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

(i) The Local Government Pension Scheme Regulations 2013 (as amended)
(ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)
(iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016.

Following the transfer of ownership of West Midlands Travel Limited from local authority to employees' ownership, the West Midlands Passenger Transport Authority entered into an admission agreement with West Midlands Travel Limited whereby 5,556 existing employees of West Midlands Travel Limited transferred on 4 December 1991 from the West Midlands Metropolitan Authorities Pension Fund to the new Fund. The West Midlands Passenger Transport Authority also entered into an admission agreement with Preston Bus Limited, following their change from local authority to employee ownership. On 31 March 1993, 162 employees of the company were transferred from the Lancashire County Council Pension Fund to the West Midlands Passenger Transport Authority Fund. Preston Bus Limited decided during 2005/06 that it wished to terminate its active membership of the Fund and the Passenger Transport Authority agreed to this request.

Agreement was reached between Preston Bus Limited and 52 of their 56 existing members to terminate their active membership during 2005/2006 in return for a cash lump-sum payment. The 4 active members remaining at 31 March 2006 subsequently agreed to the same offer. There is no provision in the admission agreement for new employees of West Midlands Travel Limited to be admitted to the Fund.

2. Management of the Fund

The West Midlands Pension Fund (WMPF) Pensions Committee is responsible for the strategic management of the assets of the Fund. The role of the Committee is to:

- Discharge functions of the administering authority for the application of the Local Government Pension Scheme Regulations for the West Midlands ITA Pension Fund;

- Put in place and monitor administration of contributions and payments of benefits as required by the regulations, and the proper management and investment of monies held for the purpose of paying benefits;
- Determine and review the provision of resources made available for discharge of the function of administrating authority.

3. Membership

Membership of the Fund at the year end was as follows:

31 March 2017 No		31 March 2018 No
402	Active members	352
3,891	Pensioner members	3,923
779	Deferred members	722
5,072	**Total members**	**4,997**

4. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2018 depending on the level of pay.

In addition to employee contributions, employers' contributions are paid as set based on triennial actuarial funding valuations. The last such valuation was as 31 March 2016.

5. Benefits

With effect from 1 April 2008, new rules were introduced replacing the 1997 scheme. The principal changes were the replacement of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump-sum of three times this amount by one based on 1/60th of pensionable pay for each year of pensionable service with no automatic lump-sum. Part of the annual pension can be commutated for a one-off tax-free lump-sum at a rate of £12 cash for each £1 per annum of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

Major changes were introduced to the LGPS from 1 April 2014, in particular the move from basing pensions on final salaries to career-average revalued earnings (CARE), with an accrual rate of 1/49th, and pensions uprated annually in line with the consumer price index. Pension entitlements accrued prior to this date continue to be based on final salary.

6. Bulk annuity insurance arrangement

As an integral part of its risk management and reduction strategy the ITA, in 2011, approved a bulk annuity insurance buy-in and, following a comprehensive procurement process, the policy was put in place on 18 April 2012 with Prudential Retirement Income Limited (Prudential). The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midlands Travel Limited pensioners on the pension payroll at 11 August 2011. The insurance provider will pay the cost of the monthly pension payments for current pensioners whilst they or their dependants are entitled to a pension. The initial arrangements do not cover the Preston Bus Company liabilities or future West Midlands Travel Limited pension payments arising from new pensioners or inflation uplifts or pre-October 1986 service.

The financial effect of the buy-in is explained in note 14 to the accounts.

7. Annual Report

A separate annual report, which is available on http://www.wmpfonline.com/wmita is produced for the Fund and provides more details about the Fund's management, financial and investment performance. The report also sets out the Fund's funding and investment strategy.

On behalf of the West Midlands Combined Authority Board

Sean Pearce
Director of Finance

Date: 20 July 2018

Independent auditor's report to the members of West Midlands Combined Authority on the pension fund financial statements

Opinion

We have audited the pension fund (entitled "West Midlands Integrated Transport Authority Pension Fund") financial statements of West Midlands Combined Authority (the 'Authority') for the year ended 31 March 2018 set out on pages 9 to 28 in Appendix 1 to the Authority's Statement of Accounts which comprise the Fund Account, the Net Assets Statement and 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 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; 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 pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund 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.

Who we are reporting to

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.

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 Director of Finance's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Director of Finance has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about 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 pension fund financial statements are authorised for issue.

Other information
The Director of Finance is responsible for the other information. The other information comprises the information included in the Authority's Statement of Accounts set out on pages 2 to 76 and Appendix 1 other than the West Midlands Integrated Transport Authority Pension Fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund 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 pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work 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 pension fund 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.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)
In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Authority's Statement of Accounts set out on pages 2 to 76 and Appendix 1, for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund 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 have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities set out on pages 16 and 17, 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 Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Director of Finance is responsible for assessing the pension fund'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 the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit, Risk and Assurance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the pension fund 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 pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund 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.

GRANT PATTERSON
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham, B4 6AT

20 July 2018

FUND ACCOUNT

2016/17 £'000		Notes	2017/18 £'000
	Dealings with members, employers and others directly involved in the fund		
(9,504)	Contributions	5	(11,434)
(59)	Transfers in from other pension funds	6	-
(2,654)	Other employer contributions	7	(2,756)
(12,217)			(14,190)
28,769	Benefits	8	29,093
147	Payments to and on account of leavers	9	882
8	Other payments	10	3
28,924			29,978
16,707	**Net withdrawals from dealing with members**		**15,788**
866	Management expenses	11	951
17,573	**Net withdrawals including fund management expenses**		**16,739**
	Returns on investments		
(18,326)	Investment income	12	(17,843)
(37,118)	(Profits) and losses on disposal of investments and changes in the market value of investments	13	(4,740)
(4,148)	(Increase)/decrease in value of bulk annuity insurance buy-in	14	16,689
(59,592)	**Net return on investments**		**(5,894)**
(42,019)	**Net (increase)/decrease in the net assets available for benefits during the year**		**10,845**
460,865	Net assets of the fund brought forward		502,884
502,884	**Net assets of the fund carried forward**		**492,039**

NET ASSETS STATEMENT

2017 £'000		Notes	2018 £'000
247,173	Investment assets	13	250,593
255,022	Bulk annuity insurance buy-in	14	238,333
1,190	Current assets	15	3,453
(501)	Current liabilities	16	(340)
502,884	**Net assets of the fund available to fund benefits at the period end**		**492,039**

These financial statements replaced the unaudited financial statements certified by Sean Pearce on 18 May 2018. They were considered by the Audit, Risk & Assurance Committee on 21 June 2018 and approved for issue by the West Midlands Combined Authority Board on 20 July 2018. Events after the Balance Sheet have been considered up to the date of approval.

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed in note 22 of these accounts.

2. Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid.

c) Investment income

(i) Interest income
Interest income is recognised in the Fund Account as it accrues, using the effective rate of the financial instrument as at the date of acquisition or origination.

(ii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

(iii) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

(iv) Benefits underwritten
The annuity purchased (see note 14) is treated in the accounts as an investment. Any income arising from this insurance contract to cover benefits underwritten is recognised in the fund as investment income on an accruals basis.

(v) Dividend income
Dividend income is recognised on the date of the cancellation of units at the mid-price in the pooled UK investments held with investment fund managers.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

(i) Value Added Tax
The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

(ii) Income Tax
The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted.

f) Administration expenses

All administration expenses are accounted for on an accruals basis.

The pension administration recharge from the City of Wolverhampton Council is calculated on a historical cost basis based on the proportion of time spent by the council's in-house pensions administration team on the Fund's activities.

g) Investment management expenses

All investment management expenses are accounted for gross on an accruals basis.

Fees of the external investment managers are agreed in the respective mandates governing their appointments. Each investment manager receives a fee for their service based on the market value of the assets they manage on the Fund's behalf. All managers have a specific target return against a benchmark.

The costs of the in-house fund management team are recharged to the Fund by the City of Wolverhampton Council on the same basis as the administration expenses recharge.

h) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. The costs include actuarial fees and professional fees relating to the unitisation exercise.

Net assets statement

i) Financial assets

The Fund's financial assets include debtors (mainly contributions due from members and employers), cash and cash equivalents, investment assets and bulk annuity insurance buy-in. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

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 fund account in the period in which it is recognised.

Investment assets are recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Subsequent to initial recognition investment assets and the insurance buy-in are measured at fair value with any gains or losses arising from changes in the fair value of the asset recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 18). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

j) Financial liabilities

Financial liabilities include amounts due for benefits and management expenses. These creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the fund account in the period in which it is recognised.

k) Foreign currency transactions

The Fund has no financial assets denominated in foreign currencies. Equities held overseas are valued in sterling at source.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (note 22).

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company and Equitable Life as its AVC providers (new AVCs only with Prudential Assurance Company). AVCs collected are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (note 17).

3. Critical judgements in applying accounting policies

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

4. Assumptions made about the future and other major sources of estimation and uncertainty

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

The items in the Net Assets Statement and the notes for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Bulk annuity insurance buy-in

The bulk annuity insurance buy-in is included in the Net Assets Statement as an asset and is valued by the Fund's actuaries. The assumptions used can be found in note 18.

Pension fund liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial valuation and will require a subsequent contribution adjustment to bring the funding back into line with target.

The effects on the net pension liability and funding level of changes in individual assumptions have been measured by the Fund's actuaries. The assumptions used are as follows:

31 March 2017	Assumptions used	31 March 2018
2.40%	Discount rate	2.50%
2.50%	Salary increases	2.35%
2.50%	Pensions increases	2.35%

31 March 2017	Life expectancy from age 65 (years)	31 March 2018
	Retiring today:	
21.8	Males	21.9
23.8	Females	24.0
	Retiring in 20 years:	
23.9	Males	24.0
26.1	Females	26.3

The effect on the pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2018	Increase/(decrease) in pension liability	
Adjustment to discount rate	0.5%	-0.5%
Present value of total obligation	(£42.1m)	£45.4m
Adjustment to long term salary increase	0.5%	-0.5%
Present value of total obligation	£2.9m	(£2.8m)
Adjustment to pension increases and deferred revaluation	0.5%	-0.5%
Present value of total obligation	£42.3m	(£39.5m)
Adjustment to life expectancy assumptions	+1 Year	-1 Year
Present value of total obligation	£25.9m	(£24.8m)

5. Contributions receivable

2016/17 £'000		2017/18 £'000
	Employers	
2,767	Normal contributions	2,813
5,850	Deficit funding	7,625
26	Early retirement costs	248
8,643		10,686
	Members	
859	Normal contributions	748
2	Additional contributions	-
861		748
9,504	**Total by category**	**11,434**
	Analysed by member body:	
9,504	Admitted bodies	11,434
9,504	**Total by authority**	**11,434**

Employers' contribution rates following the 31 March 2016 valuation for the period 1 April 2017 to 31 March 2020 are detailed in note 21.

6. Transfers in from other pension funds

2016/17 £'000		2017/18 £'000
	Transfers in	
59	Individual transfers	-
59	**Total**	-

7. Other employer contributions

Pre-October 1986 pension increase liabilities are the responsibility of the West Midlands Combined Authority. The West Midlands Combined Authority makes monthly payments to the West Midlands Pension Fund who then transfers the payments into the Fund. During the year, payments of £2.757m (2017: £2.654m) were made.

8. Benefits payable

2016/17 £'000		2017/18 £'000
	Pensions	
22,946	Retirement pensions	23,350
2,005	Widows' pensions	2,141
12	Children's pensions	10
22	Widowers' pensions	17
24,985		25,518
3,167	Commutation and lump-sum retirement benefits	3,538
617	Lump-sum death benefits	37
28,769	**Total by category**	**29,093**
	Analysed by member body:	
28,769	Admitted bodies	29,093
28,769	**Total by authority**	**29,093**

9. Payments to and on account of leavers

2016/17 £'000		2017/18 £'000
	Transfers out	
147	Individual transfers out to other schemes and personal pensions	882
147	**Total**	**882**

During the year, there were eight (2017: one) members who transferred their pensions into other schemes and personal pensions.

10. Other payments

2016/17 £'000		2017/18 £'000
8	Interest on late payments	3
8	**Total**	**3**

11. Management expenses

2016/17 £'000		2017/18 £'000
	Administration expenses	
120	Administration - City of Wolverhampton Council	120
120		120
	Investment management expenses	
615	Management fees - external	668
30	Management fees - internal	30
645		698
	Oversight and governance costs	
22	Administration and accountancy - WMCA	22
8	Subscriptions	8
3	Actuarial fees	31
21	Audit fees - external auditor	21
-	Audit fees - PSAA refund	(5)
25	Performance monitoring service	22
-	Legal fees	9
20	Professional advisors' fees	23
2	Bank charges and interest	2
101		133
866	**Total**	**951**

12. Investment income

2016/17 £'000		2017/18 £'000
7	Interest on cash deposits	6
16,865	Benefits underwritten	16,337
1,454	Dividend income	1,500
18,326	**Total**	**17,843**

Benefits underwritten relates to income received from the insurance contract with Prudential meeting the liabilities relating to West Midlands Travel Limited pensioners.

Dividend income relates to the notional dividend income payment (NDIP) which enables a policyholder to draw a regular income from the investment funds. The NDIP is based on the underlying yields from UK investments held by the relevant investment funds and is made available through cancellation of units of the investment funds at the mid-price.

13. Investment assets

Reconciliation of movements in investments:

Movements during 2017/18	Market value 1 April 2017	Purchases during the year	Sales during the year	Management fees deducted	Change in market value during the year	Market value 31 March 2018
	£'000	£'000	£'000	£'000	£'000	£'000
Pooled investment vehicles						
Quoted:						
UK - unitised insurance policies	65,028	-	(999)	-	(727)	63,302
Overseas - unitised insurance policies	87,586	-	(13)	-	3,630	91,203
Unquoted:						
Diversified growth funds	94,559	-	-	(308)	1,837	96,088
Total investments	**247,173**	**-**	**(1,012)**	**(308)**	**4,740**	**250,593**

Prior year comparatives:

Movements during 2016/17	Market value 1 April 2016	Purchases during the year	Sales during the year	Management fees deducted	Change in market value during the year	Market value 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Pooled investment vehicles						
Quoted:						
UK - unitised insurance policies	54,410	3,900	(400)	-	7,118	65,028
Overseas - unitised insurance policies	74,033	-	(10,800)	-	24,353	87,586
Unquoted:						
Diversified growth funds	79,288	9,900	-	(276)	5,647	94,559
Total investments	**207,731**	**13,800**	**(11,200)**	**(276)**	**37,118**	**247,173**

Purchases include transfers in of investments, corporate actions, increases in cash deposits and increases in net settlements due. Sales proceeds include all receipts from sales of investments, transfers out of investments, corporate actions, reductions in cash deposits and reductions in net settlements due. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held including profits and losses realised on sales of investments during the year.

Investments analysed by fund manager:

31 March 2017 Market value £'000	31 March 2017 % of total fund		31 March 2018 Market value £'000	31 March 2018 % of total fund
152,614	62%	Legal & General Investment Management	154,505	62%
47,281	19%	Baillie Gifford	49,832	20%
47,278	19%	Newton	46,256	18%
247,173	100%		**250,593**	100%

Investments analysed by security:

31 March 2017 Market value £'000	31 March 2017 % of total fund		31 March 2018 Market value £'000	31 March 2018 % of total fund
		UK equities		
9,697	4%	UK Equity Index	9,488	4%
9,697	4%		9,488	4%
		Overseas equities		
24,584	10%	Europe (ex UK) Equity Index	25,601	10%
29,002	12%	North America Equity Index	29,381	12%
9,323	4%	Japan Equity Index	10,035	4%
14,870	6%	World Emerging Markets Equity Index	16,173	6%
9,807	4%	Asia Pacific (ex Japan) Dev Equity Index	10,013	4%
87,586	36%		91,203	36%
		Gilts and bonds		
28,122	11%	All Stocks Index-Linked Gilts	27,122	11%
27,209	11%	Active Corporate Bond - All Stocks	26,692	11%
55,331	22%		53,814	22%
		Diversified growth funds*		
47,281	19%	Baillie Gifford	49,832	20%
47,278	19%	Newton	46,256	18%
94,559	38%		96,088	38%
247,173	**100%**	**Total market value**	**250,593**	**100%**

*Diversified growth funds are multi-asset portfolios that are designed to provide equity type returns but with less volatility than an equity fund. All tactical asset allocation decisions are undertaken by the manager to suit the prevailing market conditions.

As part of its risk management arrangements, the Fund uses pooled investment vehicles and has no direct shareholding in companies.

14. Bulk annuity insurance buy-in

As an integral part of the Fund's risk management and reduction strategy, a bulk annuity insurance buy-in was put in place during 2012/13. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midland Travel Limited pensioners on the pension payroll at 11 August 2011 in return for the payment of a one-off premium.

Benefits recharged to Prudential during the year have been credited to the Fund account and the value of the buy-in recalculated at each year end by the consulting actuary (see note 18 for methodology) and recognised in the Net Assets Statement as follows:

31 March 2017 £'000		31 March 2018 £'000
250,874	**Opening market value**	**255,022**
	Movements in the year:	
4,801	Interest on buy-in	3,572
(16,854)	Level pensions paid	(16,337)
(2,064)	Experience - actuarial loss	-
18,265	Change in actuarial assumptions	(3,924)
4,148		**(16,689)**
255,022	**Closing market value**	**238,333**

The decrease during the year is mainly due the change in the discount rate which is set with reference to the market conditions as at 31 March 2018. Prior year's gain of £18.2m was the result of the 2016 triennial valuation.

15. Current assets

31 March 2017 £'000		31 March 2018 £'000
	Debtors	
247	Contributions due - employers	240
65	Contributions due - members	57
2	Other debtors	138
314		435
876	Cash balances	3,018
1,190	**Total**	**3,453**
	Analysis of debtors:	
29	Other local authorities and pension funds	164
285	Other entities and indivduals	271
314	**Total**	**435**

Included within cash balances is £2.960m (2017: £0.815m) placed in the West Midlands Pension Fund's STIC Global STG Portfolio.

16. Current liabilities

31 March 2017 £'000		31 March 2018 £'000
91	Benefits payable	-
410	Sundry creditors	340
501	**Total**	**340**
	Analysis of creditors:	
242	Central government bodies	232
259	Other entities and individuals	108
501	**Total**	**340**

17. Additional voluntary contributions

As well as joining the Fund, scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from scheme members to the AVC providers.

The contributions and the investments are not included within the Fund accounts, in line with regulation 4 (1) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016. The table below shows the activity for each AVC provider in the year.

2016/17			2017/18	
Equitable Life £'000	**Prudential £'000**		**Equitable Life £'000**	**Prudential £'000**
157	696	**Opening value of the fund**	172	719
1	119	Income	1	119
-	(141)	Expenditure	(100)	(157)
14	45	Change in market value	3	21
172	**719**	**Closing value of the fund**	**76**	**702**

18. Fair value – basis of valuation

The basis of the valuation of each class of investment is set out below. There has not been any change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Asset Type	Valuation level	Basis of valuation	Observable and Unobservable inputs	Key sensitivities
Pooled investment vehicles - quoted unitised insurance policies	1	Closing bid price if both bid and offer prices are published.	Not required	Not required
Pooled investment vehicles - diversified growth funds	2	Diversified growth funds invest in a variety of liquid assets. Values are derived from several sources including the use of quoted market prices and valuation techniques used by external managers based on significantly observable market data.	NAV based pricing set on a forward pricing basis.	Not required
Bulk annuity insurance buy-in	3	Provided by the Fund's actuary based on a roll-forward of the value placed on the buy-in as part of the 2016 triennial actuarial valuation, allowing for estimated level pensions paid and the change in the discount rate used to value the buy-in.	Key underlying inputs for the valuation are the discount rate and life expectancy. Discount rate has been set at 1.60% with reference to the 13-year point of the Bank of England nominal gilt yield curve, consistent with the 2016 valuation of the Fund.	Adjustments to discount rate and life expectancy

Sensitivity of assets valued at level 3

The key underlying inputs for the buy-in valuation are the discount rate and life expectancy. The impact of changes as calculated by the Fund's actuary is shown below:

Change in assumptions - year ended 31 March 2018	Increase/(decrease) in value of buy-in	
Adjustment to discount rate	+0.5%	-0.5%
Value of buy-in	(£12.0m)	£12.7m
Adjustment to life expectancy assumptions	+1 Year	-1 Year
Value of buy-in	£11.0m	(£10.5m)

Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2
Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3
Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable. There have been no transfers between levels during the year.

Values at 31 March 2018	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	154,505	96,088	238,333	488,926
Net investment assets	**154,505**	**96,088**	**238,333**	**488,926**

Values at 31 March 2017	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	152,614	94,559	255,022	502,195
Net investment assets	**152,614**	**94,559**	**255,022**	**502,195**

A reconciliation of fair value measurements within level 3 is shown in note 14.

19. Financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

31 March 2017				31 March 2018		
Fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000		Fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
			Financial assets			
247,173	-	-	Investment assets	250,593	-	-
255,022	-	-	Bulk annuity insurance buy-in	238,333	-	-
-	876	-	Cash balances	-	3,018	-
-	314	-	Debtors	-	435	-
502,195	**1,190**	**-**		**488,926**	**3,453**	**-**
			Financial liabilities			
-	-	(259)	Creditors	-	-	(108)
502,195	**1,190**	**(259)**		**488,926**	**3,453**	**(108)**

Net (gains) and losses on financial instruments

31 March 2017 £'000		31 March 2018 £'000
	Financial assets	
	Designated at fair value through profit and loss:	
(37,118)	Investment assets	(4,740)
(4,148)	Bulk annuity insurance buy-in	16,689
(41,266)		11,949
(7)	Loans and receivables	(6)
(41,273)	**Total**	**11,943**

20. Nature and extent of risks arising from financial instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme which focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

Responsibility for the Fund's risk management strategy rests with the West Midlands Pension Fund Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's activities. Policies are reviewed regularly to reflect changes in activity and in market conditions. Policies covering specific areas relating to the Fund are as follows:

Investment risk

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by matching assets to liabilities through the triennial actuarial valuation and an appropriate asset allocation.

During the year, excluding the bulk annuity buy-in, the Fund targeted a 73-79% exposure to equities as 'growth' assets and 21-27% to 'matching' assets, such as UK bonds or gilts which provide the best match for liabilities, i.e. payments of benefits to members in future years. Risks in growth assets include market risk (the greatest risk), issuer risk and volatility, which are mitigated by diversification across asset classes, markets and sectors. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of 'growth' assets may increase the costs of funding. 'Matching assets' backed by the UK Government are considered low risk, with corporate bonds carrying some additional issuer risk.

Counterparty risk

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorized and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Legal agreements are implemented and continuous monitoring of counterparties is undertaken by fund officers in relation to suitability and performance, in addition to compliance with regulatory and Fund-specific requirements.

Credit risk

The Fund's deposits with financial institutions as at 1 April 2017 or the 31 March 2018 are disclosed in note 15. The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Liquidity risk

The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. When additional deposits are required to meet future pension payrolls, cash is provided by one of the investment managers (in accordance with the asset allocation) who will liquidate a small proportion of assets under management as instructed by the Fund. Due to the cash flow management procedures and the liquidity of the assets held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Even though the Fund has no financial assets denominated in foreign currencies, it is exposed to currency risk on its overseas equity portfolio as the movement in value takes account of changes in exchange rates of the underlying investments.

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

Price risk sensitivity analysis

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the Fund's asset allocations. In consultation with the Fund's performance advisors, the Fund has determined that the following future movements in market price risk are reasonably possible based on

2017/18 closing values:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	9,488	16.8%	11,082	7,894
Overseas equities	91,203	17.9%	107,528	74,878
Total bonds	26,692	8.7%	29,014	24,370
Index linked	27,122	8.3%	29,373	24,871
Diversified growth funds	96,088	12.6%	108,195	83,981
Cash	3,018	0.5%	3,033	3,003
Total assets	**253,611**		**288,225**	**218,997**

The potential price changes on the 2016/2017 closing values are shown below for comparison purposes:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	9,697	15.8%	11,229	8,165
Overseas equities	87,586	18.4%	103,702	71,470
Total bonds	27,209	10.9%	30,175	24,243
Index linked	28,122	23.0%	34,590	21,654
Diversified growth funds	94,559	12.5%	106,379	82,739
Cash	876	0.0%	876	876
Total assets	**248,049**		**286,951**	**209,147**

Interest rate risk and sensitivity analysis

The Fund's investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Carrying amount as at 31 March 2017 £'000	Change in year in the net assets available to pay benefits £'000	£'000	Asset type	Carrying amount as at 31 March 2018 £'000	Change in year in the net assets available to pay benefits £'000	£'000
	+100BPS*	-100BPS*			+100BPS*	-100BPS*
876	9	(9)	Cash and cash equivalents	3,018	30	(30)
55,331	553	(553)	Fixed interest securities	53,814	538	(538)
56,207	**562**	**(562)**	**Total change in assets**	**56,831**	**568**	**(568)**

*BPS – basis points

Regulatory risk

These include any changes to pension regulations e.g. more favourable benefits packages and/or HMRC rules. In order to manage this risk, changes to regulations are continuously monitored.

21. Funding arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. As a result, employers' contributions have been adjusted from 1 April 2017.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and, ultimately, to the council tax payer from an employer defaulting on its pension obligations.

The results of the valuation as at 31 March 2013 and 31 March 2016 and the actuarial assumptions used are shown below.

Valuation results	31 March 2016 Valuation	31 March 2013 Valuation
Funding target as % of existing and prospective liabilities	100%	100%
Common rate of employer's contributions (calculated using the attained age method)	25.1%	21.5%
Market value of the fund	£464m	£449m
Actuarial value of the fund	£569m	£563m
Funding level in relation to past service liabilities	82%	84%
Offset to allow for market changes after the valuation date*	n/a	(£28m)
Deficit in relation to past service	(£105m)	(£86m)

*allows for impact on assets and liabilities

Valuation assumptions	2016 valuation	2013 valuation
Discount rate - West Midlands Travel Limited		
Pre-retirement (non-retired members)	4.5% p.a.	5.5% p.a.
Post-retirement (non-retired members)	As above	3.5% p.a.
Post retirement (retired members - non buy-in)	As above	3.5% p.a.
Post retirement (retired members - buy-in)	1.9% p.a.	3.0% p.a.
Buy-in asset valuation	1.9% p.a.	2.5% p.a.
Discount rate - Preston Bus Limited		
Pre-retirement	2.8% p.a.	5.0% p.a.
Post-retirement	As above	3.0% p.a.
Salary increases	2.3% p.a.	2.6% p.a.
Pension increases in payment	2.3% p.a.	2.6% p.a.
Retired members' mortality - base tables	S2PA tables with a multiplier of 110% for current pensioners (both normal and ill-health) and future dependants	CMI self administered pensions schemes (SAPS) tables with scheme and member category specific adjustments
Retired members' mortality - future improvements	CMI 2015 model methodology with 1.5%p.a. long-term trend	CMI 2013 model methodology with 1.25%p.a. long-term trend
Commutation assumption	Members will commute pension to provide a lump sum of 50% of the additional maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	50% of retiring members will take the maximum tax-free lump available and 50% will take the standard 3/80ths cash sum for pre April 2008 service

Key:
CMI – The Continuous Mortality Investigation
S2PA – Post retirement mortability tables

Following the 31 March 2016 valuation, employers' contribution rates for the period from 1 April 2017 to 31 March 2020 have been set at 25.1% per annum plus £7,300,000 (2017/18), £7,467,900 (2018/19) and £7,639,700 (2019/20) for West Midlands Travel Limited. The contributions have taken into consideration the support of the Group guarantee which has been extended following discussions as part of the valuation process. The contributions certified are conditional on the guarantee remaining in place for the employer relating to its participation in the Fund.

A rate of 0% plus £325,000 per annum was determined as the appropriate rate for Preston Bus Limited following the 31 March 2016 valuation. This followed the decision by Preston Bus Limited to opt out of the scheme in February 2006. The annual lump-sum only payment will continue to be paid in order to cover the past service default that has accrued.

If non ill-health retirements exceed those provided for in the valuation, it may be necessary to review the employers' contribution rate. The funding method adopted is known as the 'attained age method' which is consistent with the funding objective and appropriate as the Fund is closed to new members and has an ageing membership profile.

The Fund's assets at 31 March 2016 valuation was £464m, of this £256m was in respect of the buy-in asset value with the remaining representing the Fund's invested assets.

22. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see note 21). The actuary has also used valued ill health and death benefits in line with IAS 19. Demographic assumptions are the same as those used for funding purposes.

The actuarial present value of promised retirement benefits at 31 March 2018 was £619.3m (2017: £650.6m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

31 March 2017	Assumptions used	31 March 2018
2.40%	Discount rate	2.50%
2.50%	Salary increases	2.35%
2.50%	Pensions increases	2.35%

23. Related party transactions

The West Midlands Combined Authority recharges administrative costs incurred to the Fund. The recharges for the year ended 31 March 2018 are £22,000 (2017: £22,000), as detailed in note 11. There are no other related party disclosures, as none of the members of the West Midlands Pension Fund Pensions Committee or the employees of the Fund's advisors and officers who hold key positions are members of the Fund.

24. Events after the Reporting Date

Following guidance from Central Government, local authority investment pools have been created to bring together the investment assets of local authority pension funds into eight investment pools across England and Wales. Authorities across the Central region joined together to form LGPS Central which was set up in October 2016 to manage one of these eight national investment pools. LGPS Central Limited, an FCA-regulated company, began trading on 1 April 2018 in line with government regulations following FCA authorisation earlier in the year. The Fund and eight other LGPS funds across the Midlands are the participating funds in the LGPS Central investment pool. Whilst the Fund participates in LGPS Central Limited, it is not a shareholder. No assets in the Fund have been transitioned to date and proposals to transition future assets will be given full consideration to ascertain the suitability of the offering by the company to meet the strategic requirements of the Fund.