TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Audit & Governance Committee Agenda

Date: Thursday 19th November 2020 at 10.00am

Venue: Under the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 this meeting will take place via video link.

Membership:
Councillor Matthew Storey (Chair, Middlesbrough Borough Council)
Councillor Brenda Harrison (Vice Chair, Hartlepool Borough Council)
Councillor Paul Crudass (Darlington Borough Council)
Councillor Sandra Smith (Redcar & Cleveland Borough Council)
Councillor Barry Woodhouse (Stockton-On-Tees Borough Council)
Paul Bury (Independent member)
Jonny Munby (Independent member)

AGENDA

1. **Apologies for Absence**

2. **Declarations of Interest**

3. **Minutes of meeting held on 21st July 2020**
   Attached

4. **Action Tracker**
   Attached

5. **Appointment of Chair & Vice Chair**

6. **Appointment to South Tees Development Corporation, Audit and Risk Committee**

7. **CEO Update including COVID 19 Update**
   Attached

8. **External Audit Completion Report and Value for Money Statement**
   Attached

9. **Annual Financial Statements 2019/20**
   Attached

10. **Corporate Risk Register**
    Attached

11. **Treasury Management Strategy Mid Year Update and Year End Update**
    Attached

12. **Internal Audit Progress Reports**
Attached

13. **Forward Plan**
Attached

14. **Date and Time of Next Meeting:**
Tuesday 19th January 2021

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers. Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact: Laura Metcalfe, 07388 371543 or laura.metcalfe@teesvalley-ca.gov.uk

Tees Valley Combined Authority Declaration of Interests Procedures

1. The purpose of this note is to provide advice and guidance to all members (the Mayor, elected and co-opted members, substitute members and associate members) of the Combined Authority Cabinet, Sub-Committees and Local Enterprise Partnership Board, on the procedure for declaring interests. The procedure is set out in full in the Combined Authority's Constitution under the "Code of Conduct for Members" (Appendix 8).

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority to further their personal or private interests.

3. There are two types of personal interests covered by the constitution:

   a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
      i. a member of your family;
      ii. any person with whom you have a close association;
      iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
      iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
      v. any body as described in paragraph 3 b) i) and ii) below.

   b. Any other personal interests. You have a personal interest in any business of the Combined Authority where it relates to or is likely to affect:
      i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Combined Authority;
      ii. any body which:
         - exercises functions of a public nature;
         - is directed to charitable purposes;
         - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

Declarations of interest relating to the Councils' commercial role

4. The constituent councils of the Combined Authority are closely integrated with its governance and financial arrangements, and financial relationships between the Combined Authority and Councils do not in themselves create a conflict of interest for Council Leaders who are also Combined Authority Cabinet members. Nor is it a conflict

of interest if the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

Procedures for Declaring Interests

5. In line with the Code of Conduct, members are required to adhere to the following procedures for declaring interests:

Register of Interests

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Combined Authority. Details of any personal interests registered will be published on the Combined Authority's website, with the full register available at the Combined Authority's offices for public inspection. The form will be updated on an annual basis but it is the responsibility of each member to notify the Monitoring Officer of any changes to the register throughout the year. Notification of a change must be made to the Monitoring Officer within 28 days of becoming aware of that change.

Declaration of Interests at Meetings

7. The Combined Authority will include a standing item at the start of each meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.

8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

Sensitive Information

10. Members can seek the advice of the monitoring officer if they consider that the disclosure of their personal interests contains sensitive information.

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Tees Valley Combined Authority (TVCA) Audit and Governance Committee

Tuesday 21st July 2020 at 10.00am

Under the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 this meeting took place via video link.

These Minutes are in draft form until approved at the next Audit & Governance Committee meeting and are therefore subject to amendments.

Attendees

Members
Councillor Matthew Storey (Chair, Middlesbrough Council)
Councillor Barry Woodhouse (Stockton Borough Council)
Councillor Brenda Harrison (Hartlepool Borough Council)
Councillor Peter Berry (Redcar & Cleveland Borough Council)
Councillor Paul Crudass (Darlington Borough Council)
Paul Bury (Independent member)
Jonny Munby (Independent member)

Apologies for Absence
Christopher White (Independent member)
Councillor Sandra Smith (Redcar & Cleveland Borough Council)

Officers
Gary Macdonald (Group Director of Finance & Resources, TVCA)
Laura Metcalfe (Governance Manager, TVCA)
Sally Henry (Governance Officer, TVCA)

Also in Attendance
Cameron Waddell (Mazars – External Auditors)
Philip Church (RSM – Internal Auditors)
Rob Barnett (RSM – Internal Auditors)

AGC 01/20	**APOLOGIES FOR ABSENCE** Apologies for absence were submitted as detailed above. The Chair noted that this was to be the last meeting for Independent Member, Christopher White, before he stands down. He placed on record his thanks for Christopher's support and commitment to the Committee. Gary Macdonald added his thanks for Christopher's work with the Committee and confirmed that a recruitment process for a new independent member would be begin next week.

AGC 02/20	**DECLARATIONS OF INTEREST** No declarations of interest were received.
AGC 03/20	**MINUTES OF MEETING HELD ON 28th MAY 2020** The minutes were agreed as a true record.
AGC 04/20	**ACTION TRACKER** Gary Macdonald provided updates on outstanding actions: • A formal induction process for members will be devised after TVCA AGM where appointments to Committees are confirmed. • A briefing on TVCA Vision and Values will be included in the induction • TVCA Executive team have agreed to provide updates on the impact of COVID19 on Teesside International Airport and South Tees Development Corporation at future meetings. Jonny Mumby highlighted that he would appreciate the previously offered training in relation to capital grants accounting and treasury management, possibly at the same time as a new independent member is inducted. Gary Macdonald agreed to arrange this training.
AGC 05/20	**DRAFT ANNUAL FINANCIAL STATEMENTS** Gary Macdonald provided a summary overview of the Combined Authority's Draft Annual Financial Statements for 2019/20 and confirmed that the final set will be provided to Auditors at the end of this week, which is in line with the schedule. Following Audit, the final annual financial statements will be on the agenda for the next committee meeting. Jonny Munby asked why borrowing has increased by £30m when there has been an increase in cash. Gary Macdonald confirmed that although the figure has increased, this is considerably lower than anticipated borrowing for 2020/21. He added that this has been carefully considered in consultation with our treasury management advisors and reflects the level investment required in the current financial year. Jonny Mumby added that it was good to see an update on performance at the Airport noted. The Chair asked about planning in relation to the impact of Brexit and where funding will come from in place of European funding. Gary Macdonald stated that TVCA are planning for using the remaining the European funding until it comes to an end as well as other funding sources. He added that there has been no detail on the future national UK Shared Prosperity funding expected to replace current European funding streams, however he will to update the Committee once this is available.

	The Chair queried why TIAL Business Park Ltd and South Tees Enterprise Ltd were not listed on page 13. Gary Macdonald confirmed that these entities have not been formalised at Companies House as yet but will be included in the final version of the accounts. He agreed to update the committee once these elements are finalised. The Chair also asked why the number of officers earning over £50,000 has increased in the last year. Gary Macdonald confirmed this was due to the incorporation of the group structure and the resources brought in to deliver STDC activity. He agreed that he would provide a breakdown for members outside of the meeting. **RESOLVED that: Members noted the Draft Annual Financial Statements.**
AGC 06/20	**DRAFT PROCUREMENT STRATEGY** Gary Macdonald provided an overview of the Combined Authority's draft Procurement Strategy. He highlighted that the strategy is to be implemented across the group and allows for greater social value being obtained from spend. Cllr Harrison noted that she liked the ethos of the strategy and asked for assurances that local people will be able to access jobs when projects are delivered in the area. Gary Macdonald confirmed that while public sector procurement rules mean that he cannot give 100% assurance that would be the case, the weighting of social value has been increased and the process allows local businesses to have a fair and balanced opportunity to bid for contracts. He added that this does not preclude businesses outside of the area from bidding and cost and quality are also considerations when procuring good and services. Cllr Crudass suggested that there can sometimes be a conflict between social value and procurement rules. Gary Macdonald confirmed that the strategy is compliant with public sector procurement regulations, using appropriate scoring including a significant weighting to social value that covers a number of factors. Jonny Mumby noted the social value aspect as positive for the area. He queried how timelines will be implemented in relation to training detailed in paragraph 8.6. Gary Macdonald confirmed that TVCA are using a social value portal with a nationally recognised model. He will clarify how training will be rolled out with the facilitators at the next opportunity. The Chair added that social value is extremely important and that TVCA play an important role in driving economic development and regeneration in the area. **RESOLVED that: Members endorsed the Draft Procurement Strategy**

AGC 07/20	**CORPORATE RISK REGISTER** Consideration was given to the Corporate Risk Register. Gary Macdonald confirmed that the TVCA Executive team have reviewed and updated the risk register. He added that the 'red' risks relate to the COVID19 outbreak and detail how TVCA are managing the implications with the Committee receiving a full briefing on the approach to economic recovery at the last meeting. He highlighted some of the activity being undertaken including: • TVCA paying suppliers immediately • Analysing the survey of 1000 businesses and considering economic analysis to determine key interventions in consultation with constituent local authorities. • Continuing to work on the levelling up agenda to maximise support for the area • Submission of full business case I relation to £71m agreed in principle for STDC. An announcement is expected soon. Cllr Crudass asked about risk to adult education and support for the unemployed as this has previously been funded mostly by European funding. Gary Macdonald confirmed TVCA receive £30m per annum from government for Adult Education under devolution arrangements and are currently ensuring delivery mechanisms are in place for training providers to execute training remotely in the post-COVID world. He added that feedback has been positive, and providers are accelerating their online provision. In addition to this, the hardest to reach are a key priority for the EES team and the potential developments on the STDC site are also an opportunity for the skills agenda. Cllr Harrison added that each local authority has their own way of working in relation to adult education and she is keen to know that TVCA are working with the local authorities in their approach. Gary Macdonald confirmed that TVCA Head of Education, Employment & Skills, Shona Duncan, is in regular contact with each local authority as well as holding regular working group meetings with local authority leads and training providers and that he would encourage all local authorities to engage with Shona and her team. Cllr Woodhouse asked about the size of the business surveyed in relation to the impact of COVID19 and if there are any preliminary findings. Gary Macdonald stated that of the responses he is aware of so far, the makeup is reflective of the business population of Tees Valley i.e. mainly micro, small & medium sized enterprises. He confirmed that the analysis is still underway, and he would check the timescales for this with the team responsible. Cllr Woodhouse added that he would also be keen to learn about levels of unemployment once the furlough scheme comes to an end. The Chair noted that the risk score of risk C02 has been reduced since the last meeting and asked the reasons for this. Gary Macdonald confirmed that from a financial risk perspective, TVCA can manage the potential reduction of funding through income and expenditure management.

	RESOLVED that: Members noted the Corporate Risk Register.
AGC 08/20	**DRAFT INTERNAL AUDIT PLAN 2020/21** Rob Barnett (RSM) introduced the draft Internal Audit Plan for 2020/21 and asked for the Committees feedback. Gary Macdonald added the TVCA Executive team have carefully considered the move to the Group structure arrangements as reported to Cabinet and have considered the assurances needed in this period and have fed this back to RSM to ensure a good cross section of coverage across the group as it evolves. The Chair noted that the priorities make sense at this time and that the flexibility allowed in the plan is very important. He asked how Declarations of Interest in relation to Cabinet Members are sought. Gary Macdonald confirmed that TVCA seek declarations of interest annually from Cabinet Members. In addition to this process, Cabinet Members are asked to declare any interests in relation to agenda items at the start of each Cabinet Meeting. The Chair queried if it is the responsibility of the individual members to declare their interests. Gary Macdonald confirmed this is the case. **RESOLVED that: Members noted the draft internal audit plan.**
AGC 09/20	**INTERNAL AUDIT TRACKER** Gary Macdonald provided an overview of the internal audit action tracker noting that all actions are either complete or in the process of being completed. He added that Data Protection training has been rolled out to all TVCA and STDC staff since the last meeting. **RESOLVED that: Members noted the internal audit tracker.**
AGC 10/20	**EXTERNAL AUDIT UPDATE** Cameron Waddell (Mazars) briefed the Committee on the progress since the last meeting including: • The timetable has now been agreed with TVCA & STDC and will commence in August; • Mazars are working closely with Tait Walker who provide the component external auditor arrangements for the Airport; • There are no significant matters arising from the conclusions of their value for money audit; and • Reassurance that Mazars are experienced in auditing remotely and are confident they meet the agreed timetable. **RESOLVED that: Members noted the external audit plan.**

AGC 11/20	**FORWARD PLAN** Gary Macdonald confirmed the Forward Plan is up to date apart from the addition of agreed updates relating to the impact of COVID19 which will be added following the meeting.
AGC 12/20	**DATE OF NEXT MEETING** • Thursday 19th November 2020 at 10:00

ITEM 4

TEES VALLEY COMBINED AUTHORITY AUDIT & GOVERNANCE COMMITTEE - ACTION TRACKER –2019-20

Meeting	Item	Action	Owner	Target Date	Update
27th September 2018	Action Tracker	Committee requested that consideration be given of a formal introduction program for committee members, detailing TVCA audit framework.	TVCA	Winter 2020/21	Preparations underway.
29th November 2018	Any Other Business	Committee be provided with briefing on TVCA Vision and Values exercise	TVCA	Winter 2020/21	To be included in induction as above.
28th February 2019	Treasury Management Strategy	External advisors Arling Close to be invited to a future meeting of the committee to brief members on methodology used with regards to treasury management.	TVCA		Added to Forward Plan
15th October 2019	Annual Financial Statements	Members to hold conference call to discuss statements following approval from External Auditors	TVCA		**COMPLETE**
23rd January 2020	Corporate Risk Register	Members to be provided with briefing note on TVCA ask of government with regards to the UK Shared Prosperity Fund	TVCA		**COMPLETE**
23rd January 2020	Internal Audit Progress Report	Members to be provided with regular progress report on TVCA response to recommendations made by Internal Auditors	TVCA		**COMPLETE** Report from auditors to be presented at May meeting. Further updates to be presented by TVCA officers at future meetings of committee.
28th May 2020	Corporate Risk Register	Members to receive update on Impact of COVID-19 on Teesside International Airport and the South Tees Development Corporation	TVCA		**COMPLETE** Added to Forward Plan as standing item
28th May 2020	Internal Audit Update	Members to receive draft Procurement Strategy for consideration at future committee meeting.	TVCA	28th July 2020	**COMPLETE**
28th May 2020	Internal Audit Plan	Members to receive draft Internal Audit Plan for forthcoming year for consideration.	TVCA	28th July 2020	**COMPLETE**

28th May 2020	Draft Risk Framework	Members to make annual review of Risk Management Framework, with recommendation for revision to be submitted to Cabinet.	TVCA	Summer 2021	Added to Forward Plan
21st July 2020	Draft Annual Financial Statements	Details of Officers earning over £50k to be shared with Committee	TVCA	Winter 2020	Detailed in Annual Financial Statements once complete.
21st July 2020	Corporate Risk Register	Timetable for Covid Business Survey analysis to be shared	TVCA	Autumn 2020	To be shared with Committee w/c 16th November 2020.

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 7

REPORT TO THE AUDIT & GOVERNANCE COMMITTEE

19th NOVEMBER 2020

REPORT OF GROUP CHIEF EXECUTIVE

UPDATE FROM GROUP CHIEF EXECUTIVE

SUMMARY

This report updates members of the Audit & Governance Committee on significant recent developments at the Tees Valley Combined Authority, in addition to further verbal updates to be provided at the meeting.

DETAIL

TEESWORKS

1. On 28th July our plan for jobs at the former Redcar steelworks site was launched– a plan that will see almost 400 jobs created and almost £400m worth of investment over the next 12 months. Over the next 12 months, 19 separate demolitions will take place and 18 individual contracts will go out for tender, creating 390 jobs, 39 of which will be for apprentices. In total, 775 jobs will be created through these investments, which will total £393m.

2. Local workers will be able to find out about contracts and job opportunities at Teesworks by visiting www.teesworks.co.uk.

3. The branding was developed by Middlesbrough-based Better Brand Agency.

CULTURE AND TOURISM

4. The Tees Valley will host a fixture of the 2021 Rugby League World Cup between the Cook Islands and Tonga. The fixture will take place at the Riverside Stadium on 7th November 2021. This news follows the announcement that the Tees Valley will be the host destination for the Cook Islands men's international rugby league team for next year's World Cup finals. The team will be based at Rockliffe Hall hotel and train at Darlington's Mowden Park arena. The event could give the Tees Valley an economic boost of up to £8m, attracting tens of thousands of international rugby fans to the area.

5. The Combined Authority continues to roll out its £1m recovery programme to support businesses in the hospitality & visitor economy and cultural industries.

6. The programme's Welcome Back Grant Fund was extremely well received with 260 businesses supported to the value of £338,000.

7. The Welcome Back strand of activity also includes online support for businesses through a webinar programme. Topics were selected based on industry feedback and include Health & Safety, First Aid and Health & Wellbeing.

8. Phase One of the Welcome Back campaign saw a campaign encouraging Tees Valley residents back into Tees Valley visitor economy businesses. Phase two will extend the messaging into a 1-2 hour drive time to attract day visitors and overnight stays.

9. LEP Board Member, Annabel Turpin, accepted the Mayor's invitation to head up the Cultural Industries & Visitor Economy Recovery Taskforce to guide the development of approaches for the £1million recovery programme. The Taskforce met for the first time on 31st July 2020. A number of Task & Finish groups are now being formed to develop detailed thinking around programme strands including 'The Class of 2020', Destination Development, and Development & Innovation.

EDUCATION, EMPLOYMENT AND SKILLS

10. The Combined Authority has been awarded £20,000 from the Careers & Enterprise Companies My Choices Transition project. The funding will provide careers support for 10 Special Educational Needs and Disability (SEND) schools for those pupils in transition years to access work experience placements and preparation for work support.

11. The new Apprenticeship Grant has approved Grants for 69 businesses to create new apprenticeships for 16-20 year olds.

12. The Combined Authority has received notification of an additional allocation of devolved Adult Education Budget to the value of £1.2m, this will be utilised during Academic year 2020/21 to support more unemployed people access training, directly related to future jobs.

COVID-19 RESPONSE UPDATE:

13. Following the outbreak of Covid-19, the Combined Authority has worked closely with our partners to facilitate and deliver rapid responses to help businesses manage the immediate impact of the pandemic, whilst also planning for longer-term recovery.

14. We have acted as regional collator of business and economic intelligence, providing local intelligence and economic analysis to ensure that government is aware of the impacts of the crisis on our economy and to help shape the national response. This information has been gathered from:
    - A business survey of over 1000 local firms.
    - A 24/7 helpline for companies looking for support and advice – launched two days after the start of lockdown – which has received over 2000 enquiries.
    - Specialist economic analysis.

15. We have made the following interventions to support businesses and residents manage the immediate impacts:

- **Business Growth Fund:** An additional £2m of funding secured from MHCLG for the Tees Valley Business Growth Fund. 150 expressions of interest and 55 applications have been received from businesses with a project value of over £1.5m.
- **Back to Business Fund for Visitor Economy:** Funding has been made available to support businesses in the visitor economy through access to advice, guidance and consultancy support of professional services. 94 businesses have been invited to complete a full application to the value of £256k. Defrayment is underway.
- **Back to Business Wider Economy** scheme launched in July to help SMEs in other sectors access new equipment and technologies or direct professional support and guidance in areas such as HR, accountancy, legal, financial, health and safety, IT and digital. Over 200 businesses have been invited to complete a full application with a total value of £850k. Defrayment is underway
- **Welcome Back Fund:** Over 500 small hospitality businesses were supported in making adaptations allowing them to reopen in July.
- **Apprenticeship Grants:** 105 applications have been approved for Apprenticeship Support grants in key sectors.
- **DWP Kickstart scheme:** The Combined Authority is providing support to SMEs who wish to create work placements for 16-24 years olds on Universal Credit on behalf of local businesses under the DWP Kickstart scheme. 226 Job Placements at 63 businesses have been applied for so far in four applications. A fifth application is being prepared.

16. As the regional lead agency for economic development, we are in the process of finalising an Economic Recovery Plan of proposed interventions for a more sustainable, resilient and stronger Tees Valley economy in the medium to long-term. Our Plan has six key themes:

    1. **Confident People, Confident Businesses**
    Supporting Town Centre / High Street revival and local businesses.
    2. **Education, Skills & Jobs**
    Creating opportunities for young people, preventing long term scarring as a result of unemployment, supporting Inclusive Growth and developing the skills necessary to support productivity driven growth
    3. **Agile Companies & Competitive Workers**
    Supporting firms and workers to adapt to changing economic conditions
    4. **The Building Blocks for Growth**
    Developing transport, business & digital infrastructure, whilst creating construction opportunities in the short term.
    5. **Supporting Health for Growth**
    Supporting delivery of critical services to the national economy.
    6. **Bringing Business Home**
    Establishing Tees Valley as an exemplar region in green technologies – leading the way in low carbon sectors, delivering innovation & meeting net zero targets

17. The Combined Authority has also made a formal submission to the government's Comprehensive Spending Review, setting out economic interventions detailed in the draft Tees Valley Economic Recovery Plan.

18. Our Recovery Plan will continue to be a ‘live’ document, which ensures that we are taking appropriate action in response to the economic impacts of Covid-19 to support our businesses and residents.

NOVEMBER CABINET

19. The next Cabinet meeting is due to take place on 27th November 2020. The following items are on the agenda:

- Governance & Appointments
- Mayors Update
- SQW Final Pre-Gateway Report;
- Growth Programme for the Creative Visitor Economies;
- Treasury Management Outturn report 2019/20;
- Treasury Management Mid-Year Review 2020/21;
- Draft Budget 2021/22
- Quarter 2 Budget Report and Medium-Term Financial Plan Update;
- A19 Tees Crossing;
- Wheels to Work
- TIAL Business Plan

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Audit Completion Report

Tees Valley Combined Authority (and Group)

Year ended 31 March 2020

MAZARS

CONTENTS

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DH1 5TS

Audit and Governance Committee
Tees Valley Combined Authority
Cavendish House
Teesdale Business Park
Stockton-on-Tees
TS17 6QY

6 November 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented in March 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Authority was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully

CWaddell

Cameron Waddell (Key Audit Partner)
Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Tees Valley Combined Authority (the Authority) and Tees Valley Combined Authority Group (the Group) for the year ended 31 March 2020, and forms the basis for discussion at the Audit and Governance Committee meeting on 19 November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control (Authority and Group).
- Property, plant and equipment valuation (Group).
- Defined benefit liability valuation (Authority and Group).
- Valuation of Goodwill (Group).

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements	We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.
Value for Money conclusion	We anticipate concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.
Whole of Government Accounts (WGA)	We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, which has a deadline of 4 December. This cannot be done however until the audit of the financial statements is completed. The Authority is below the threshold requiring a detailed review of your WGA submission, and we expect to be able to provide the information required by NAO at the conclusion of our audit work.
Wider powers	The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Going Concern	● (green)	We have raised some queries with management in respect of the use of the going concern assumption, notably around commercial components within the TVCA Group. We await a reply, and when received will consider the implications for our audit.
Pensions	● (amber)	We have not yet received the information we require from the local government pension fund administering authority's auditor. As soon as it is received we will review it and consider the assurance and implications for our audit.
Group consolidation audit work	● (amber)	Our audit approach for the audit of the Group, as set out in our Audit Strategy Memorandum, includes reliance on the component auditors for Goosepool Group (MHA Tait Walker) and South Tees Development Corporation Group (Mazars LLP). In respect of Goosepool Group, we have liaised with the component auditor throughout the year. We received a response to our Group Instructions issued in February 2020, and updated in May 2020, in late September, but have raised queries on the content, and await a response. We understand that the audit is underway, but so far have not had confirmation that the auditor has been able to complete their audit, and as such cannot review their audit files for our assurance. We await confirmation from the component auditor when this will be possible. In respect of South Tees Development Corporation Group, our audit is ongoing. Our audit of the Corporation as a single entity is largely complete, however there are some matters that remain outstanding where we await information from management, and we also await information from the sub-component auditor. Detailed status has been reported to the Audit and Risk Committee of the Corporation.
Events after the Balance Sheet date	● (amber)	Management intend to update the note nearer sign off, to reflect the latest position in respect of Events after the Balance sheet date. We will therefore review it nearer sign off, and our review is ongoing up until the date of signing the auditor's report (the Opinion).
Financial Statements (post-audit)	● (green)	Review and closure processes, including checking the amended version of the financial statements.

Status

- ● (red) Likely to result in material adjustment or significant change to disclosures within the financial statements
- ● (amber) Potential to result in material adjustment or significant change to disclosures within the financial statements
- ● (green) Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

1. EXECUTIVE SUMMARY (CONTINUED)

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £1.48 million for the Authority using a benchmark of 2% of Gross Operating Expenditure, and £1.68 million for the Group using the same benchmark. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1.835 million for the Authority and £2.27 million for the Group, using the same benchmarks. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee, at £55,000 for the Authority and £68,000 for the Group based on 3% of overall materiality.

Overview of our group audit approach

Our Audit Strategy memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Authority's consolidated financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Tees Valley Combined Authority (parent)	NAO Code audit	Mazars LLP	Full audit	None
South Tees Development Corporation Group (subsidiary)	NAO Code audit	Mazars LLP	Full audit	None
Goosepool Group (subsidiary)	Statutory audit	Tait Walker	Full audit	None

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Governance Committee in a follow-up letter.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 9 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement
As part of our planning procedures we considered the risks of material misstatement in the Authority's and Group's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls (Authority and Group)	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Subject to satisfactory completion of our outstanding work, our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention at this stage.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Property, Plant and Equipment Valuation (Group)	The 2019/20 Group financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group PPE. There is a high degree of estimation uncertainty associated with the valuation of PPE due to the significant judgements and number of variables involved in providing revaluations. We therefore identified the revaluation of PPE to be an area of risk.

How we addressed this risk

Valuations were not undertaken by the Group, as it relied on valuations undertaken within the components in the Group. We therefore have placed reliance on the audit work undertaken on the valuation assertion by the component auditors for Goosepool Group (MHA Tait Walker) and South Tees Development Corporation Group (Mazars LLP).

As Goosepool Group financial statements report under a different accounting framework to TVCA Group, as well as relying on the component auditors work, we also considered the classification of the asset valuations used at TVCA group level. Where revaluation is required under the Cipfa Code, but valuations were not updated for some categories at 31 March 2020 (as management adopt a cyclical approach), we considered the reasonableness of the carrying values at 31 March 2020, using published indices, to gain assurance the carrying values could not be materially misstated at 31 March 2020.

South Tees Development Group report under the same accounting framework as TVCA group, and as such we placed reliance on our audit work undertaken on the South Tees Development Corporation Group component.

We also considered the impact of COVID-19 on the valuation to gain additional assurance on it’s reasonableness.

Audit conclusion

We await conclusion of the audit work by the component auditor on Goosepool Group in order to review their files and as such this element of work remains outstanding, as noted in section 1.

Based on the work we have undertaken as TVCA Group auditor, we are satisfied that the classifications adopted by TVCA group remain reasonable, and the carrying values are not materially misstated.

The valuer in one of the components followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation report disclosed a “material valuation uncertainty” in relation to the valuation of the land valued.

We have requested management add a reference to this in the TVCA Group financial statements. We plan, in line with normal practice, to include reference to this disclosure as an ‘emphasis of matter’ in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements. Our draft Auditor’s Report at Appendix B includes the draft emphasis of matter paragraph.

Subject to satisfactory completion of our outstanding work, our work has provided the assurance we sought and we have not identified any other matters to report in relation to property, plant and equipment valuations.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Defined benefit liability valuation (Authority and Group)	The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.
	How our audit addressed this risk
	We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO. We also considered national pensions issues arising, further information is provided on page 9.
	Audit conclusion
	Subject to our review of the response from the local government pension scheme auditor, when received, our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention at this stage. Our work identified no indication of material estimation error in respect of pensions.

Enhanced risk/management judgement	Description of the risk/management judgement
Valuation of Goodwill (Group)	Group management will need to undertake procedures to ascertain whether the carrying value of goodwill is supported for the TVCA Group Statements, and make decisions about whether the goodwill should be impaired.
	How our audit addressed this risk/management judgement
	This determination has been undertaken by management as part of preparation of the Goosepool Group consolidated statements, prior to consolidation into TVCA Group. As such, we planned to place reliance on the audit of this by the component auditor for Goosepool Group in line with our Audit Strategy Memorandum.
	Audit conclusion
	We await conclusion of the audit work by the component auditor on Goosepool Group in order to review their files and as such this element of work remains outstanding, as noted in section 1.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Authority's/Group's accounting practices

We have reviewed the Authority's/Group's accounting policies and disclosures and, subject to the amendments in section 4, concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Authority's /Group's circumstances.

Draft accounts were received from the Authority on 27 July 2020 and were of a good quality overall. Working papers were provided on a timely basis and were likewise of good quality.

Significant matters discussed with management

McCloud Judgement

The McCloud judgement relates to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. In July 2019, Treasury confirmed that the difference in treatment between older and younger members of public service pension schemes would need to be removed in order to remove the discrimination. The impact of this was not deemed to be material in 2018/19 for the Authority/Group, and as such was not included in the 2019 actuarial report the Authority/Group obtained and used for its financial statements. For the financial year 2019/20 the respective actuarial reports included the likely impact.

In July 2020 Treasury initiated a consultation on the proposed remedy for public service pensions and MHCLG released a consultation into the proposed remedy for the LGPS, which set out the estimation basis for the impact of the judgement.

Management enquired of Aon Hewitt, in relation to the expected outcome of this change on the LGPS. Aon Hewitt confirmed that the estimate made in the 2019/20 IAS19 report included a methodology not dissimilar to that in the consultation and as such your actuary does not expect there to be a material difference in the LGPS meaning that a recalculation based on the consultation remedies was not required.

Goodwin Case

A case was made against the Teachers Pensions Scheme in relation to sexual orientation discrimination. The discrimination occurs because there is a difference in survivor benefits payable depending upon whether the member was in a same-sex marriage or civil partnership or an opposite-sex marriage or civil partnership. The government concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances.

Management enquired of Aon Hewitt, and they have confirmed that there will be an additional liability arising from the Goodwin judgement. Full information is not yet available to accurately calculate the impact, however, based on an estimation, it is expected to have a minor impact. As the impact of this is expected to be well below materiality, no adjustment to the financial statements has been made.

As the McCloud and Goodwin issues relate to the refinement of an estimate rather than an error, they have not been reported as unadjusted misstatements in section 4.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. Management have been very helpful and responsive in addressing our audit queries to date, and we are grateful for the assistance provided. As noted in section 1 of this report, we do have some matters outstanding, however these are largely relating to the completion of the component audits within the group, so that we can review the work undertaken by the component auditors and determine whether it is adequate for us to rely on as Group auditor.

Given the Government's COVID-19 instruction for the public to work from home if possible, our audit was completed remotely but this did not cause significant difficulties during the audit because:

- we used technology, such as video conferencing, to ensure the audit was completed to the required standards;
- all working papers provided were electronic; and
- we used a team of public sector audit specialists with the same engagement lead, senior manager and team leader as in 2018/19.

At the conclusion of our audit we will review our proposed audit fees, discuss and agree any adjustments needed with management, and report final fees in our Annual Audit Letter.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No objections or questions from local electors have been received.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	NIL
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	NIL
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	NIL

Our work has not identified any significant deficiencies in our 2019/20 audit to report at this stage.

Our 2018/19 audit did identify some areas for improvement, and an update is provided below.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year (2018/19).

2018/19 Description of deficiency (1)

Loan agreements for the intra group loans between TVCA, STDC, and STDL were not put in place and signed until July 2019.

Potential effects

Lack of clarity about responsibilities and obligations between the different group organisations, including payment terms if signed agreements are not in place.

Recommendation

If funds are made available to other bodies in the group, this should be underpinned by formal agreements, which should be signed at the time the funds are released.

2019/20 update

No similar matters have come to our attention during our 2019/20 audit.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £55,000 for the Authority and £68,000 for the Group.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2019/20

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Goodwill				979
	Dr: Minority interest				121
	Cr: Fixed Assets			1,100	
	Dr: Impairment of goodwill	979			
	Cr: Goodwill				979

Management processed a prior period adjustment (PPA) in the draft 2019/20 statement relating to 2018/19, which fed from a prior period adjustment in relation to asset values in the Goosepool Group component. In line with accounting standards, only PPAs that are material should be treated as a PPA, and where not material should be treated as an in year adjustment. As the adjustment was not material for TVCA Group it should not have been processed as a PPA and instead treated as an in year 2019/20 adjustment. This means that the 2018/19 comparatives have been amended in the 2019/20 statements, instead of it being accounted for as an in year transaction in 2019/20.

This has impacted on various areas of the financial statements including:

- CIES; increase in impairment of goodwill of £0.979 million in 2018/19 instead of 2019/20; and
- Land and buildings revised down by £1.1 million in 2018/19 instead of 2019/20.

With changes flowing through to the cash flow statement and the MIRS, and all associated notes.

		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
2	Dr: Expenditure	285			
	Cr: Creditors				285
	Relating to payments made in April 2020 relating to March 2020 not included in the financial statements.				
	Total unadjusted misstatements	**1,264**	**0**	**1,100**	**2,364**

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2019/20

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Cash and cash equivalents Cr: Debtors Relating to items adjusted for in the bank reconciliation and treated incorrectly as debtors that were received prior to the year end, and as such should be treated as cash.			646	646
2	Dr: Transport; Expenditure Cr: Transport; Income Relating to impairment losses on loans with a TVCA subsidiary, that were netted off income incorrectly rather than charged to expenditure.	8,516	8,516		
3	Dr: Research; Expenditure Cr: Research; Income Relating to impairment losses on other loans, that were netted off income incorrectly rather than charged to expenditure.	248	248		
4	Dr: Group Net cost of services Cr: Group Other Comprehensive Income Relating to loss on revaluation of a Group asset charged to Other comprehensive income rather than Net cost of services.	530	530		
5	Dr: Creditors Cr: Grants in advance Relating to grants in advance that should be shown separately on the face of the balance sheet.			8,726	8,726
6	Dr: Creditors Cr: Borrowing Relating to borrowing that should be shown separately on the face of the balance sheet.			857	857

Adjustments to other primary statements

Cashflow statement

- £6.81 million adjustment between Capital grants, and other receipts, due to a misclassification.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

Our audit has identified the following disclosure matters that management has agreed to amend:

- Narrative statement – requires amendment to ensure consistency with statements and underlying information, and to strengthen the report to ensure full compliance with the Code.
- Note 3 Accounting standards that have been issued but have not yet been adopted – requires amendment to ensure full compliance with the Code.
- Note 5 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty - requires amendment to disclose all areas of estimation uncertainty.
- Note 6 Tangible Fixed Assets, Investment Properties and Intangible Fixed Assets – required amendment to include comparative information for 2018/19.
- Note 6 Investment Properties – requires amendment to correct £1.586 million revaluation shown as additions in error.
- Note 11 Employee remuneration – requires amendment to add a group disclosure which was omitted, and add explanation for clarity to the 2018/19 TVCA note to explain the linked roles of Managing Director, Interim Managing Director and Chief Executive throughout 2018/19.
- Note 18 External Audit Costs – requires amendment in respect of group audit fees for fees in components that were not disclosed in the note.
- Note 20 Capital Financing and Expenditure (Group) - Management have identified after publishing the draft statements and wish to correct:
    - the MRP charged of £108k should be removed as it relates to borrowing within the Group that is removed on consolidation.
    - £2.039 million direct revenue contributions should be £0.209 million, and as such is overstated by £1.830 million.
- Note 22 Financial Instruments – Note requires amendment to remove items that do not meet the definition of financial instruments, disclose fair values, and separate classification within the note.
- Note 23 Defined Benefit Pension Schemes – amendments required to ensure the disclosure for 'The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" for TVCA and the Group.
- Note 25 Provisions and Note 26 Contingent Liabilities – require amendment to separately report what relates to TVCA and what relates to the Group.
- Note 28 Accounting Policies – amendments required to add extra policies that were omitted, enhance policies that required further information, including:
    - financial liabilities in the financial instruments section;
    - treatment of capital grants in the government grants section; and
    - termination benefits in the employer benefit section.
- A number of other amendments relating to heading, grammatical, consistency or incorrect year references were required.
- Annual Governance Statement – amendment to be made to reorder the conclusion and progress sections to clearly report the overall conclusion, and then separately report the progress.
- Note 20 Capital Financing and Expenditure (TVCA) – Management have amended the note for 2018/19 and 2019/20 to reflect a changed position on the use of reserves versus borrowing. This has identified a capital financing requirement at 31 March 2019, resulting in an MRP charge in 2019/20 of £1.244m.
- A new note is to be added to disclose Capital Commitments at TVCA Group level.

5. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, '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.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	• Constitution in place which is available on the Authority's website, which includes financial regulations and Assurance Framework, Delegation to officers and Code of Conduct. • Strategic Economic Plan (SEP) 2016-2026 and Investment Plan for 2019-2029 in place, available on the Authority's website. • No data quality issues in respect of performance information we are aware of. • Management team in place. Audit and Governance Committee meets on a quarterly basis, and oversees internal and external audit, risk management and treasury management. • Medium term planning is undertaken and budget plans are in place; current Medium Term Financial Plan (MTFP) covers the period 2020/21 to 2023/24, and is updated at least annually. • Periodic reporting to Cabinet in the year against priorities. • Management assurance frameworks in place together with risk register. • Devolution deal Implementation Plan incorporates high level risks. • Internal Audit in place. • 2019/120 draft Annual Governance Statement produced, and final to be approved by Cabinet.	Yes
Sustainable resource deployment	• MTFP in place for the period the period 2020/21 to 2023/24, as part of 10 year investment plan to 2028/29. • Nature of the Authority's funding and expenditure does not indicate any significant risk to achievement of strategic priorities in the short term. • Authority does not have any significant assets of its own and no items meet the capitalisation threshold and hence no Property, Plant and Equipment, and as such does not have an 'asset register', but does maintain a list of equipment, IT etc. Group assets are subject to separate arrangements at entity level. • Significant element of the Authorities funding is being used to deliver capital projects; these assets are however not held by the Authority. SEP and Investment Plan identifies future large scale capital schemes/priorities. • HR and payroll functions in place internally, or through third party providers.	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	• Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 Local Authorities in the Tees Valley and other public and private organisations. • Authority structure includes the Tees Valley Local Enterprise Partnership (LEP). LEP members are drawn from a wide range of other public bodies and private companies. • SEP, Investment Plan and website identify organisations that the Authority is working with in order to achieve its strategic priorities. • The Authority has written procedures for procuring products and services, which are within its Constitution.	Yes

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant Value for Money risk(s). We have kept this under review throughout our audit and are satisfied that there are no significant risks apparent.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

To:
Mr Cameron Waddell
Partner
Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

[Date]

Tees Valley Combined Authority (and Group) - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Tees Valley Combined Authority (and Group) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information
I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within the Authority/Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Financial Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Cabinet and Committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority/Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Authority/Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Chief Financial Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority/Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority's/Group's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions
I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Authority's/Group's related parties and all related party relationships and transactions of which I am aware.

Impairment review
To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets
All the Authority's/Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments
We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Going concern
I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Authority/Group, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Authority/Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely

Director of Finance

Date………………

(PLEASE ADD THE APPENDIX OF UNADJUSTED MISSTATEMENTS TO THIS LETTER)

APPENDIX B
DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of Tees Valley Combined Authority

Report on the financial statements

Opinion

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

In our opinion, the financial statements:

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

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 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.

THE WORDING OF THIS PARAGRPH IS SUBJECT TO INTERNAL REVIEW AND IS SUBJECT TO CHANGE

Emphasis of Matter

Material uncertainty relating to valuation of land and property

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note (TBC) to the financial statements concerning the material valuation uncertainty statement made by the Group's valuer.

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 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 and Group'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 Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

APPENDIX B
DRAFT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Director of Finance for the financial statements
As explained more fully in the Statement of Responsibilities, 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 2019/20, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible 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.

The Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Authority is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance is responsible for assessing each year whether or not it is appropriate for the Authority and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

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 Authority's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Tees Valley Combined Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

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

Basis for conclusion
We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether 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 in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Authority
The Authority is responsible for putting in place proper arrangements to secure 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.

APPENDIX B
DRAFT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. 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.

Use of the audit report
This report is made solely to the members of Tees Valley Combined Authority as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 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 members of the Authority 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 members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate
We certify that we have completed the audit of Tees Valley Combined Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[*Signature*]

Cameron Waddell
Partner
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

[Date]

APPENDIX C
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

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TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 9

REPORT TO THE TEES VALLEY AUDIT AND GOVERNANCE COMMITTEE

19th NOVEMBER 2019

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

ANNUAL FINANCIAL STATEMENTS 2019/20

SUMMARY

To present to Members of Audit and Governance Committee the latest draft Financial Statements for the Combined Authority 2019/20.

RECOMMENDATIONS

It is recommended that the Audit and Governance Committee note the Annual Financial Statements.

DETAIL

1. The Authority is required to produce an Annual Statement of Accounts that sets out the financial position for that period. The accounts are prepared in accordance with all relevant prescribed guidance, Codes of Practice and Reporting Standards.

2. The Accounts and Audit Regulations (England) 2015 came in to effect on 1st April 2015. The regulations change the arrangements for the approval and publication of the Statement of Accounts and the Annual Governance Statement.

3. In line with this revised guidance issued by Government the inspection notice and draft accounts were published on the Combined Authority website, during this time the public have the right to examine the accounts, question the auditor and to make objections

4. The attached Statement of Accounts are the latest draft for the Authority as a single entity and have been audited by Mazars LLP. The audit is still ongoing to enable completion of the Group Accounts liaising with the component auditors and as such the Group Financial Statements have not yet been completed.

5. Once the component auditors have completed their work the Group statements will be audited by Mazars LLP and will be reported through to the committee. If there are any amendments to the Authority's financial statements resulting from the completion of the group statements these will be reported at the same time.

FINANCIAL IMPLICATIONS

6. None

LEGAL IMPLICATIONS

7. The Accounts and Audit Regulations (England) 2015 came in to effect on 1st April 2015. The regulations change the arrangements for the approval and publication of the Statement of Accounts and the Annual Governance Statement.

8. The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 amended the due date for Annual Financial Statements to be available to the public by the first working day of September. The draft accounts were published on the Combined Authorities website on 27th July 2020. During this period the public could examine the accounts, question the auditor and to make objections.

9. The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 also amended publication date for the final, audited accounts to 30 November 2020 for all local authority bodies. In order to comply with the regulations the Combined Authority are required to approve and publish them by 30 November 2020, or as soon as reasonably practicable after the receipt of the auditor's final findings (if later).

10. The Group Accounts are expected to be completed after the 30 November target date and therefore the Audit of the Accounts will also be later than this date. As such the Combined Authority will provide a written explanation on its website and will publish as soon s reasonably practicable after the audit is completed and the accounts are approved by the Cabinet in January 2021.

11. All Group subsidiary undertakings will be compliant with requirements of the Companies Act as an extension due to Coronavirus has been granted to companies until 31 March 2021 for accounts with a financial year end of 31 March 2020.

Name of Contact Officer: Gary Macdonald
Post Title: Group Director of Finance & Resources
Telephone Number: 01642 527707

CONTENTS

Tees Valley Combined Authority - Annual Financial Statements 2019/20

Narrative Report

Introduction

Welcome to the Tees Valley Combined Authority's Annual Statement of Accounts for 2019/20. The Statement of Accounts contains all the financial statements and disclosure notes required by statute. The statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

The Tees Valley Combined Authority (TVCA) was established in April 2016 as a new legal body that brings together the five Authorities which serve Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton, alongside private sector representation from the region’s Local Enterprise Partnership. The TVCA is responsible for a number of transport functions, economic development and growth across the combined area. In May 2017 the first Tees Valley Mayor was elected to chair the Combined Authority and drive forward our ambitious plans.

Strategy and Priorities

The ambition is for Tees Valley to become a high value, low carbon, diverse and inclusive economy. These aspirations and goals, along with the Combined Authority’s plan for delivering them, are laid down in the refreshed Strategic Economic Plan (SEP), published in December 2016. Our ambition incorporates economic, social and environmental priorities and will allow all partners to work towards a sustainable and socially responsible Tees Valley.

Underlying this ambition is a commitment to improving the lifetime opportunities for local people, tackling some of the difficult challenges of social exclusion, providing opportunities across all of the Tees Valley including rural areas and disadvantaged communities, thereby ensuring that all citizens are able to share in the benefits of economic growth. The SEP is focused around six thematic building blocks which reflect the main priorities and areas of activities over the next ten years to unlock transformational growth:-

- **Business Growth**: Further increase jobs and business density through targeted support to create and attract new companies and to grow businesses and sectors with high growth potential;
- **Research, Development, Innovation & Energy**: Further enhance productivity in all core sectors through the commercialisation of knowledge;
- **Education, Employment & Skills**: Ensure a labour market which meets the needs of local business and supports the lifetime opportunities of all our residents;
- **Place**: Promote the Tees Valley as the preferred location in the UK for energy intensive indigenous firms, Foreign Direct Investment and create the conditions necessary to attract businesses and individuals with a focus on vibrant town centres;
- **Culture**: Change the external perceptions of Tees Valley through the arts, cultural and leisure offer, create places that attract and retain businesses and business leaders, and make the area an attractive place to live, work and visit; and
- **Transport & Infrastructure**: Facilitate local, regional, national and international road, rail and broadband connectivity through collaborative investment in physical infrastructure.

The Tees Valley Combined Authority's first Investment Plan was published and agreed in March 2017 setting out the investment priorities for the period to 2021. In the time since this plan the Authority has been developing its detailed strategies for key areas of activity set out in the SEP. Alongside this work the draft Local Industrial Strategy was approved by Cabinet in July 2019 setting out the productivity challenges and opportunities for the region. With this long term thinking already in place, together with the significant uncertainties for the economy over the coming years, it was deemed critical that the Authority makes use of the devolution powers for long term investment planning. Therefore in January 2019 the Authority published its investment strategy covering the period 2019-29.

Tees Valley Combined Authority - Annual Financial Statements 2019/20

Narrative Report

The Vision for the South Tees Regeneration Programme is to see the area transformed into a hotbed of new industry and enterprise for the Tees Valley that makes a substantial contribution to the sustained economic growth and prosperity of the region and the communities it serves.

In October 2017 the South Tees Development Corporation masterplan was launched which presents the vision, strategy and ideas for the transformational regeneration of the area into a world class employment-generating zone and economic growth enabler for the Tees Valley. The total area of opportunity extends to almost 4,500 acres (1,800 hectares). The masterplan for the redevelopment of the site has been agreed with the long term view to redevelop the site to provide a high value, low carbon, diverse and inclusive economy thus creating significant employment prospects for the area.

The Vision of the STDC masterplan sees the creation of up to 20,000 new jobs. The focus is on higher skilled sectors and occupations, centred on manufacturing innovation and advanced technologies and those industries best able to deliver sustained economic prosperity for the Tees Valley and its people, while realising a jobs spectrum that offers opportunities for all. The strategic plan to redevelop the site is set out in the masterplan which is available on the website www.southteesdc.com

Achievements in Year

2019/20 was only the fourth operational year for TVCA and we have successfully built on the work undertaken in the previous years to prepare the organisation to undertake new devolved responsibilities. We have developed strategies and plans to shape future priorities and investments to meet our aims and objectives. We have continued to strive for further devolved powers whilst securing additional funding from Government to fund our investments. A summary of these can be found below:-

- During the year we have invested £84million on programmes, projects, grant schemes and development funding for future projects.
- In August 2019 the Combined Authority took control of the devolved Adult Education Budget to the value of £29.4million per year.
- October 2019 saw an ambitious programme of business support and funding measures approved by the Combined Authority Cabinet which allocated £30million of funds set aside in the Investment Plan for Business Growth. The programme, which commenced in January, will leverage other external funds alongside TVCA investment to provide local businesses with a single point of entry to the range of business support, funding and finance options available to them regardless of business size, sector or nature of need.
- In January 2020 the Combined Authority approved the Strategic Transport Plan which provides the framework for future investment in transport across Tees Valley through the Integrated Transport Programme. This committed £39million to deliver a wide range of transport projects and programmes to build on the previous approvals of £127million from the Transport theme in the Investment Plan.
- Within the Investment Plan £20million was allocated to Research, Innovation & Energy and in January 2020 the Innovation Programme was approved by Cabinet which allocated £19million to a range of programmes to be delivered by 2024.
- During the year South Tees Development Corporation began compulsory purchase order proceedings for land within the Corporations land boundaries and on 29th April 2020 the judgement was found in the Corporations favour without any modifications. This will allow the Corporation to acquire the land from the other main landowner plus any other remaining smaller landowners.
- At Teesside International Airport a number of new routes have been secured during the year as the airport delivers the 10 year turnaround plan. In December 2019 the Combined Authority Cabinet approved investment into the land on the Southside of the runway which will deliver the infrastructure required to unlock a business park development to be delivered in conjunction with a private sector partner.

Tees Valley Combined Authority - Annual Financial Statements 2019/20

Narrative Report

Impact of Covid-19

Although the COVID-19 outbreak in March 2020 presented significant challenges to local government, the nature of work of the Combined Authority and robust pre-existing business continuity plans ensured it was possible to minimise the impact of the disruption on the delivery of services and finances. Any financial impact of COVID-19 on the group will be reflected within 2020/21 financial statements.

The Combined Authority responded to the COVID-19 outbreak by establishing a call centre to support local businesses affected by the disruption and has continued to support partners who are delivering projects and programmes within the investment plan.

The impact of the outbreak on the Development Corporation was also minimised and work has continued on the site and behind the scenes to progress the redevelopment throughout.

As we progress to the recovery stage the Combined Authority and Development Corporation will have a significant role to play in driving the region's economic revitalisation, which may involve the re-evaluation of long-term plans in light of altered circumstances. This re-evaluation will be conducted in conjunction with our established governance framework.

Due to COVID-19, the airport ceased commercial flights on 25th March, and the planned start of the development work on the Southside was also suspended. The non-commercial flights with Cobham continued throughout the lock-down period, as well as the on-going property rental, including the addition of Willis Asset Management.

The Airport has implemented a comprehensive reopening plan to ensure our staff, customers and partners are able to access services in a safe manner. The plans followed all Government guidance and requirements for the industry with our dedicated teams ensuring all aspects of the Airport layout and reconfiguration complied with the relevant guidelines.

The lockdown period has been used to further discussions and renegotiate contracts with the existing commercial airlines (Eastern Airways, KLM), as well as with other potential partners. Flights recommenced with Eastern Airways on 24th June on a reduced-cost basis for the airport, and flights are due to recommence with KLM on 3rd August. KLM have also signed a new 5-year deal with the airport during the lockdown period. The Southside development program has now also recommenced.

Due to the relatively low-level of commercial flight activity at the airport in the period prior to the lockdown, the impact of COVID-19 has mostly been confined to a delay in the successful implementation of the business plan, rather than any significant increase in operating losses. The impact of COVID-19 on the Airport Business Plan will continue to be reviewe din light of all available information.

Looking Ahead Including Risks and Opportunities

During the coming years we will continue to develop long-term commitments whilst being in a position to be responsive to new ideas and opportunities. We will continue to deliver transformational programmes and improve outcomes as a direct result of local decision making. Through our determination to secure a greater transfer of funding, powers and responsibility from London we aim to establish the Tees Valley as a flagship of successful devolution.

Our ambitious plans will rely on us securing the funding to make them a reality, and as such we will strive for further devolution through our continual dialogue with Government officials. We will continue to build upon our strong track record of securing funding to maximise all funding opportunities available. Through the use of our newly appointed borrowing powers and our partnership working with co-investors we will seek to explore a range of innovative funding instruments to maximise the impact for the area.

Narrative Report

The STDC masterplan is an opportunity to enhance the local area through the creation of high quality jobs in industries which are resilient to future change, creating an increase in GVA locally and further afield. The initial risks are safeguarding the hazards and progression to land ownership and it is anticipated that these will be resolved in the near term. Medium term risks are unforeseen issues when redeveloping the site, principally ground conditions but there could also be a similarly small risk of items identified whilst demolition of current structures takes place.

Building upon the Government’s Industrial Strategy and various local and sub-regional policies, a strategic vision has been developed that will deliver the comprehensive regeneration of the South Tees site and the creation of around 20,000 new jobs across the Tees Valley region. In supporting the delivery of this vision, the Government would have a national exemplar of economic transformation, built around the region’s industrial innovation strengths in clean energy, manufacturing and production and crucially, a new platform for international trade and investment.

A partnership approach is required to deliver this ambition, not only to sustain development activity, but also to underpin the robustness of local acquisition strategies, including a process of compulsory acquisition, so that STDC can ensure development ready plots are made available for investment and to attract occupiers to the site. STDC have engaged with Department for International Trade (DIT) to ensure awareness of the detailed programme supporting the development of the South Tees site and to enable best practice to be shared as we move into detailed planning and subsequent implementation.

A business case has been submitted to Government which considers the development of partnership funding arrangements to support:

- the regeneration of the South Tees site through the creation of an investment fund to deliver remediation and infrastructure works across the whole site in the early-years which will facilitate development of the site by making it ready for private sector investment.
- demolition of all residual assets across the site as part of the site development requirements that will be critical to the achievement of the UK’s Industrial Strategy, by the creation of a clean technology hub, amongst other innovative energy and green industrial initiatives.
- the transition of the South Tees Site Company (STSC) to STDC.

The acquisition of the airport provides significant opportunities not only to transform an important part of our economic infrastructure, it presents major opportunities through land development for inward investment and jobs growth. As a significant investment we have in place extensive governance arrangements to ensure plans for the airport are delivered and progress monitored.

Brexit will have profound implications for the UK, and for the Tees Valley specifically. As one of a small number of areas which qualify for an enhanced level of access to European Funding, the resources available for investment in our economy are at particular risk. However there are also opportunities to develop new methods of funding, which could mean that Brexit actually improves the impact of regional economic development funding for areas such as ours. We will continue to engage with Government on future funding plans post Brexit.

In order to achieve our aims of delivering better outcomes for local people we will continue to build and maintain relationships with key local partners. We will engage with the business community utilising our working relationship with the Local Enterprise Partnership members and key partners.

Key Sections Included in the Statement of Accounts

Statement of Responsibilities - This sets out the respective responsibilities of the Combined Authority and the Chief Financial Officer for the Accounts.

Movement in Reserves Statement - This statement shows the movement during the year of the different reserves held by the Combined Authority.

Comprehensive Income and Expenditure Statement - This account summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

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

Narrative Report

Cash Flow Statement - This statement provides a summary of the flow of cash into and out of the Combined Authority for revenue and capital purposes.

Notes to the Financial Statements - These include the accounting policies and concepts applied, as well as the disclosure notes relating to the above statements.

Borrowing and Lending Arrangements

During 2019/20, the Combined Authority utilised its powers to borrow for investment for the first time (£30million) which was within the forecasts set out in the approved 10 year investment plan in order to deliver transformational change to the region.

The majority of the Authority's surplus cash is invested in short-term bank deposits, and money market funds. At the end of the financial year the Authority held investments totalling £61.5million. During the year the Authority has generated £470k in interest from Treasury management activities as a direct result of securing higher yielding investments in the year.

Retirement Benefits (IAS 19)

The Authority is required to comply with the accounting principles as required by International Accounting Standard 19 (IAS19). This requires the cost of retirement benefits to be recognised in the Financial Statements when employees earn them, rather than when the benefits are actually paid as pensions. Disclosure requirements include figures for the Net Pension Asset/Liability and the Pension Reserve in the Balance Sheet. There are also entries in the Comprehensive Income and Expenditure Statement and Movement In Reserves Statement to reflect movements in the Net Pension Asset/Liability from one year to the next. Entries are also required to reconcile back to actual pension contributions payable for Authority tax purposes.

AON Hewitt, an independent firm of actuaries, has calculated the Authority's net liability position as £4.52million on the Local Government Pension Scheme as at 31st March 2020. Employer's contributions to the pension fund during 2019/20 were charged at 15.9% of total pensionable employee pay in line with actuarial advice. Further information on retirement benefits is available in Note 23 of the Notes to the Core Financial Statements.

Further Information

Further information about our finances is available from the Combined Authority's website, https://teesvalley-ca.gov.uk or from the Group Director of Finance & Resources, Tees Valley Combined Authority, Cavendish House, Teesdale Business Park, Stockton-on-Tees, Tees Valley, TS17 6QY.

TVCA Movement in Reserves Statement for the year ended 31 March 2020

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000s	£000s	£000s	**£000s**	**£000s**	**£000s**
Movement in reserves during 2018/19						
Balance at 1 April 2018 brought forward	48,419	-	46,507	**94,926**	(2,270)	**92,656**
Total Comprehensive Income and Expenditure	(6,887)	-	-	**(6,887)**	282	**(6,605)**
Adjustments between accounting basis & funding basis under regulations (Note 6)	14,086	-	(13,591)	**495**	(495)	**-**
Increase/Decrease in Year	**7,199**		**(13,591)**	**(6,392)**	**(213)**	**(6,605)**
Balance at 31 March 2019 carried forward	**55,618**		**32,916**	**88,534**	**(2,483)**	**86,051**
Amounts earmarked (Note 7)	54,656					
Amounts uncommitted	962					
Total General Fund Balance at 31 March 2019	**55,618**					
Movement in reserves during 2019/20						
Balance at 1 April 2019 brought forward	55,618	-	32,916	**88,534**	(2,483)	**86,051**
Total Comprehensive Income and Expenditure	5,933	-	-	**5,933**	(827)	**5,106**
Adjustments between accounting basis & funding basis under regulations (Note 6)	(8,635)	-	8,189	**(446)**	446	**-**
Increase/Decrease in Year	**(2,702)**	**-**	**8,189**	**5,487**	**(381)**	**5,106**
Balance at 31 March 2020 carried forward	**52,916**	**-**	**41,105**	**94,021**	**(2,864)**	**91,157**
General Fund analysed over:						
Amounts earmarked (Note 7)	51,858					
Amounts uncommitted	1,058					
Total General Fund Balance at 31 March 2020	**52,916**					

TVCA Comprehensive Income and Expenditure Statement for the year ended 31 March 2020

2018/19				2019/20		
£000s	£000s	£000s		£000s	£000s	£000s
Expenditure	Income	Net		Expenditure	Income	Net
9,425	(4,461)	**4,964**	Business Growth	14,657	(11,429)	**3,228**
14,709	(14,166)	**543**	Research Development Innovation & Energy	2,897	(2,600)	**297**
5,347	(2,075)	**3,272**	Education Employment & Skills	22,139	(22,066)	**73**
4,626	(1,375)	**3,251**	Culture	2,260	(1,977)	**283**
21,562	(18,116)	**3,446**	Transport	35,624	(31,195)	**4,429**
3,858	(10)	**3,848**	Enabling Infrastructure	-	-	**-**
3,893	(1,341)	**2,552**	Project Development	268	(244)	**24**
4,995	(4,396)	**599**	Core Running Costs	5,338	(4,200)	**1,138**
16,756	(16,756)	**-**	Concessionary Fares	16,569	(16,636)	**(67)**
1,567	-	**1,567**	SSI Related Schemes Not in the Investment Plan	130	-	**130**
1,250	-	**1,250**	Place	-	-	**-**
-	(12,460)	**(12,460)**	Not Directly Attributable to Themes	273	(427)	**(154)**
87,988	**(75,156)**	**12,832**	**Cost Of Services**	**100,155**	**(90,774)**	**9,381**
			Financing and Investment Income and Expenditure:			
-	-	-	Interest payable and similar charges	154	-	154
204	(158)	**46**	Net interest on the net defined benefit liability/asset	240	(190)	50
-	(1,015)	**(1,015)**	Interest receivable and similar income	-	(3,018)	(3,018)
			Taxation and Non-Specific Grant Income:			
-	-	**-**	Non-ringfenced government grants	-	-	-
-	(4,976)	**(4,976)**	Capital grants and contributions	-	(12,500)	(12,500)
88,192	**(81,305)**	**6,887**	**(Surplus) or Deficit on Provision of Services**	**100,549**	**(106,482)**	**(5,933)**
		(282)	Re-measurements of the defined benefit liability			827
		-	Other (gains) and losses			-
		(282)	**Other Comprehensive Income and Expenditure**			**827**
		6,605	**Total Comprehensive Income and Expenditure**			**(5,106)**

TVCA Balance Sheet as at 31 March 2020

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by TVCA. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Authority are not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

	Note	**31 March 2020 £000s**	31 March 2019 £000s
Non-current assets			
Long Term Debtors	11	69,078	60,766
Total non-current assets		69,078	60,766
Current assets			
Short term investments		-	27,500
Debtors	12	18,582	13,630
Cash and Cash Equivalents	13	62,652	1,657
Total current assets		81,234	42,787
Current liabilities			
Short Term Borrowing		(857)	-
Grant Receipts In Advance	20	(8,727)	(5,959)
Short Term Creditors	14	(16,491)	(9,213)
Total current liabilities		**(26,075)**	(15,172)
Long term liabilities			
Long Term Borrowing	15	(29,143)	-
Other Long Term Liabilities	15 & 22	(3,937)	(2,330)
Total long term liabilities		**(33,080)**	(2,330)
Net Assets:		**91,157**	86,051
Reserves			
Usable reserves:			
General Fund Balance		1,058	962
Earmarked General Fund Reserves	7	51,858	54,656
Capital Grants Unapplied		41,105	32,916
		94,021	88,534
Unusable Reserves:			
Pensions Reserve	15 & 22	(3,937)	(2,330)
Capital Adjustment Account	8	1,224	-
Accumulated Absences Account		(151)	(153)
		(2,864)	(2,483)
Total Reserves:		**91,157**	86,051

Mayor Ben Houchen ………………………………………………….

Chair Tees Valley Combined Authority Cabinet
Date

TVCA Cash Flow Statement For The Year Ended 31 March 2020

The Cash Flow Statement shows the changes in cash and cash equivalents of TVCA during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authorityp are funded by way contributions and grant income or from the recipients of services provided. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

	Note	**TVCA 2019/20 £000s**	TVCA 2018/19 £000s
Net (surplus) or deficit on the provision of services		**(5,933)**	6,887
Adjustments to net surplus or deficit on the provision of services for non-cash movements:			
Pension Fund adjustments		(780)	(561)
Increase/(Decrease) in Revenue Debtors	12	4,952	8,348
(Increase)/Decrease in Revenue Creditors	14	(7,278)	(4,796)
(Increase)/Decrease in Borrowing	21	(30,000)	-
(Increase)/Decrease in Grants Received in Advance	20	(2,768)	(5,001)
Increase/(Decrease) in Long Term Debtors	11	8,312	54,318
		(27,562)	52,308
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:			
Capital Grants credited to surplus or deficit on the provision of services		(37,700)	(17,111)
		(37,700)	(17,111)
Net cashflow from operating activities		**(71,195)**	**42,084**
Investing activities			
Purchase of short term and long term investments		161,500	55,000
Proceeds from short term and long term investments		(189,000)	(92,500)
Other receipts from investing activities		37,700	17,111
Net cashflow from investing activities		**10,200**	(20,389)
Net (increase) or decrease in cash and cash equivalents		**(60,995)**	21,695
Cash and cash equivalents at the beginning of the reporting period		**(1,657)**	**(23,352)**
Cash and cash equivalents at the end of the reporting period	14	**(62,652)**	(1,657)
The cashflow for operating activities includes the following items:			
Interest received		**(547)**	**(687)**
Interest paid		**-**	**-**

Note 2: Expenditure & Funding Analysis TVCA

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Combined Authority in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19				2019/20		
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000s	£000s	£000s		£000s	£000s	£000s
4,514	450	**4,964**	Business Growth	6,652	(3,424)	**3,228**
454	89	**543**	Research Development Innovation & Energy	2,310	(2,013)	**297**
1,953	1,319	**3,272**	Education Employment & Skills	20,538	(20,465)	**73**
1,323	1,928	**3,251**	Culture	1,879	(1,596)	**283**
1,109	2,337	**3,446**	Transport	9,715	(5,286)	**4,429**
10	3,838	**3,848**	Enabling Infrastructure	-	-	**-**
5,637	(3,085)	**2,552**	Project Development	666	(642)	**24**
2,607	(2,008)	**599**	Core Running Costs	2,517	(1,379)	**1,138**
-	-	**-**	Concessionary Fares	-	(67)	**(67)**
-	1,567	**1,567**	SSI Related Schemes Not in the Investment Plan	-	130	**130**
-	1,250	**1,250**	Place		-	**-**
12,468	(24,928)	**(12,460)**	Not Directly Attributable to Themes	282	(436)	**(154)**
30,075	**(17,243)**	**12,832**	**Net Cost Of Services**	**44,559**	**(35,178)**	**9,381**
(30,076)	24,131	(5,945)	Other Income and Expenditure	(44,588)	29,274	(15,314)
(1)	**6,888**	**6,887**	Surplus or Deficit	**(29)**	**(5,904)**	**(5,933)**
(961)			**Opening General Fund Balance**	**(962)**		
(1)			Less/Plus Surplus or (Deficit)	**(29)**		
-			Movements To/(From) Other Reserves	**(67)**		
(962)			**Closing General Fund Balance at 31 March 2020**	**(1,058)**		

Note 2: Expenditure & Funding Analysis TVCA

Notes to the Expenditure and Funding Analysis: TVCA

Adjustments between Funding and Accounting Basis 2019/20				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Business Growth	2,256	23	(5,703)	**(3,424)**
Research Development Innovation & Energy	-	11	(2,024)	**(2,013)**
Education Employment & Skills	-	66	(20,531)	**(20,465)**
Culture	-	28	(1,624)	**(1,596)**
Transport	2,055	5	(7,346)	**(5,286)**
Enabling Infrastructure	-	-	-	**-**
Project Development	-	38	(680)	**(642)**
Core Running Costs	-	559	(1,938)	**(1,379)**
Concessionary Fares	-	-	(67)	**(67)**
SSI Related Schemes Not in the Investment Plan	-	-	130	**130**
Place	-	-	-	**-**
Not Directly Attributable to Themes	-	-	(436)	**(436)**
Net Cost Of Services	4,311	730	(40,219)	**(35,178)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(12,500)	50	41,724	**29,274**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(8,189)	780	1,505	**(5,904)**

Adjustments between Funding and Accounting Basis 2018/19				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Business Growth	1,692	9	(1,251)	450
Research Development Innovation & Energy	341	6	(258)	89
Education Employment & Skills	3,217	33	(1,931)	1,319
Culture	3,156	21	(1,249)	1,928
Transport	3,381	-	(1,044)	2,337
Enabling Infrastructure	3,843	-	(5)	3,838
Project Development	1,687	-	(4,772)	(3,085)
Core Running Costs	-	442	(2,450)	(2,008)
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	3	1,564	1,567
Place	1,250	-	-	1,250
Not Directly Attributable to Themes	-	-	(24,928)	(24,928)
Net Cost Of Services `	**18,567**	**514**	**(36,324)**	**(17,243)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(4,976)	46	29,061	24,131
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	**13,591**	**560**	**(7,263)**	**6,888**

Adjustments for capital purposes: this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

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

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments - this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income.

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

For ***Financing and investment income and expenditure*** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Expenditure and Income Analysed By Nature

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

	2019/20	2018/19
	£000s	£000s
Expenditure		
Employee benefits expenses	6,117	5,080
Other services expenses	94,038	82,908
Interest payments	394	204
Total Expenditure	**100,549**	88,192
Income		
Fees, charges and other service income	(129)	(50)
Interest and investment income	(3,208)	(1,173)
Government grants and contributions	(103,145)	(80,082)
Total Income	**(106,482)**	(81,305)
(Surplus) or Deficit on the Provision of Services	**(5,933)**	6,887

Segmental Income

Income received on a segmental basis is analysed below:

	2019/20	2018/19
	£000s	£000s
Services	**Income from Services**	Income from Services
Business Growth	0	0
Research Development Innovation & Energy	(26)	(3)
Education Employment & Skills	(6)	(16)
Culture	(1)	(3)
Transport	(83)	0
Enabling Infrastructure	0	0
Project Development	0	0
Core Running Costs	(13)	(28)
SSI Related Schemes Not in the Investment Plan	0	0
Place	0	0
Not Directly Attributable to Themes	0	0
Total income analysed on a segmental basis	**(129)**	(50)

Note 3: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures.
- Annual Improvements to IFRS Standards 2015–2017 Cycle. IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs. The adoption of these updates standard is not expected to have a material impact on the Authority's financial statements.
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement. The adoption of this standard is not expected to have a material impact on the Authority's financial statements.

Note 4: Critical Judgements in Applying Accounting Policies

In applying its accounting policies the TVCA has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

There are no critical judgements made for the authority as a single entity.

Note 5: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by TVCA 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 TVCA's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Pension liabilities: 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. A firm of consulting actuaries is engaged to provide TVCA with expert advice about the assumptions to be applied. Sensitivities are included in Note 22
- The pension fund external valuers have stated that their valuations as at 31 March 2020 have been reported on the basis of 'material valuation uncertainty' in relation to directly owned property and pooled investment property vehicles and consequently, less certainty and a higher degree of caution should be attached to their valuations than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, they have recommended that the valuation of the directly held properties is kept under frequent review, which is currently undertaken each quarter. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuations cannot be relied upon. The statement is a disclosure, not a disclaimer. It is used in order to be clear and transparent with all parties that – in the extraordinary circumstances that applied at the valuation date – less certainty can be attached to the valuation than would otherwise be the case. A share of these Pension Fund assets are reflected in the Authority's accounts, as set out in Note 22 on pension disclosures.

Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations

2019/20	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving statutory provision for the financing of capital investment	(1,224)	-	-	1,224
Adjustments involving the Capital Grants Unapplied Account	(8,189)	-	8,189	-
Adjustments involving the Pensions Reserve	780	-	-	(780)
Adjustments involving the Accumulated Absences Adjustment Account	(2)	-	-	2
Total Adjustments	**(8,635)**	**-**	**8,189**	**446**

2018/19	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Grants Unapplied Account	13,591	-	(13,591)	-
Adjustments involving the Pensions Reserve	561	-	-	(561)
Adjustments involving the Accumulated Absences Adjustment Account	(66)	-	-	66
Total Adjustments	**14,086**	**-**	**(13,591)**	**(495)**

Note 7: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20.

TVCA

Earmarked Reserves	Balance at 1 April 2019 £000s	Transfers Out 2019/20 £000s	Transfers In 2019/20 £000s	Balance at 31 March 2020 £000s
Revenue Reserves				
Development Pot	(1,030)	1,030	-	-
Investment Fund	(41,409)	2,069	(731)	(40,071)
SSI	(12,217)	564	(67)	(11,720)
Concessionary Fares	-	-	(67)	(67)
Total Revenue Reserves	**(54,656)**	**3,663**	**(865)**	**(51,858)**

Note 7: Movements in Earmarked Reserves

Earmarked Reserves	Balance at 1 April 2018 £000s	Transfers Out 2018/19 £000s	Transfers In 2018/19 £000s	Balance at 31 March 2019 £000s
Revenue Reserves				
Development Pot	(1,939)	909	-	(1,030)
Investment Fund	(28,531)	277	(13,155)	(41,409)
SSI	(16,988)	4,771	-	(12,217)
Total Revenue Reserves	**(47,458)**	**5,957**	**(13,155)**	**(54,656)**

Development Pot - The development pot reserve was established as part of the 2017-21 Investment Plan where funding was held for the early development costs associated with projects and programmes to be delivered as part of the wider investment plan or through alternate funding routes.

Investment Fund - The authority receives grant and other funding into a single pot which is used to fund the delivery of the investment plan. This funding is received annually and any funds not required in year are held in reserve for future years delivery of the investment plan.

SSI - The Authority manages the funding awarded to the SSI Task Force following the closure of SSI. This reserve holds the funding received that is yet to be drawn down to deliver the projects and programmes approved by the Task Force.

Concessionary fares - The Authority manages the concessionary travel fares budget for the Tees Valley, any surpluses generated in year are held in this reserve.

Note 8: Capital Adjustment Account

	2019/20 £000s	2018/19 £000s
Balance at 1 April 2019	-	-
Revenue expenditure funded from capital under statute	33,831	51,564
	33,831	51,564
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	(29,511)	(30,702)
Application of grants to capital financing from the Capital Grants Unapplied Account	(4,311)	(18,567)
Statutory provision for the financing of capital investment charged against the General Fund	(1,224)	-
Capital expenditure charged against the General Fund balance	(9)	(2,295)
	(35,055)	(51,564)
Balance at 31 March 2020	**(1,224)**	**-**

Note 9: TVCA Members' Allowances

Details of the amounts paid to each elected member of the Authority are published annually. Elected members from the constituent local authorities sit on various TVCA boards and receive no allowance for carrying out this role from the Authority.

During the year payments were made to the Mayor totalling £38,374 which consisted of £36,592 Mayoral Allowance and £1,782 travel and subsistence (2018/19 £38,406).
The Chair of the Local Enterprise partnership, Paul Booth, sits on TVCA Cabinet and during the year he was re-imbursed £4,704 in relation to accommodation and travel costs incurred whilst representing TVCA (2018/19 £3,406).

Note 10: Employee remuneration

Remuneration of the Chief Executive and her senior staff are shown in the following table.

Remuneration of Senior Employees 2019/20						
Post holder information	**Salary (Including fees & Allowances) £**	**Expense Allowances £**	**Benefits In Kind £**	**Total Remuneration excluding pension contributions 2019/20 £**	**Pension contributions £**	**Total Remuneration including pension contributions 2019/20 £**
Chief Executive	141,859	711	-	**142,570**	22,556	**165,126**
Strategy & Investment Planning Director	97,466	311	-	**97,777**	15,497	**113,274**
Commercial & Delivery Director	95,769	397	-	**96,166**	15,367	**111,533**
Director of Business & Skills	52,800	556	-	**53,356**	8,395	**61,751**
Director of Finance & Resources	57,475	-	-	**57,475**	-	**57,475**
Head of Comms & Marketing	78,537	746	-	**79,283**	12,487	**91,770**
TVCA TOTAL	**523,906**	**2,721**	**-**	**526,627**	**74,302**	**600,929**

TVCA - A senior management restructure took place in the year which resulted in all Heads of Service who previously reported direct to the Chief Executive now reporting to relevant Directors with the exception of the Head of Comms & Marketing who continues to report to the Chief Executive. This has led to a reduction of the senior employees reported in the above table however the roles are now included in the table at the end of this note.
The restructure resulted in change of job titles for Directors as set out below:-
- Strategy Director changed to Strategy and Investment Planning Director.
- Business Director changed to Director of Business and Skills.
- Investment Director changed to Commercial and Delivery Director
- Finance Director changed to Director of Finance and Resources.

At the start of the year both the Director of Business & Skills and Director of Finance & Resources were vacant, both of these roles were filled in September 2019. All other posts have been in post for the full year.

Remuneration of Senior Employees 2018/19						
Post holder information	**Salary (Including fees & Allowances) £**	**Expense Allowances £**	**Benefits In Kind £**	**Total Remuneration excluding pension contributions 2018/19 £**	**Pension contributions £**	**Total Remuneration including pension contributions 2018/19 £**
Chief Executive	46,359	246	-	**46,605**	7,371	**53,976**
Managing Director	42,994	1,245	-	**44,239**	6,836	**51,075**
Interim Managing Director	71,012	771	-	**71,783**	11,291	**83,074**
Strategy Director	91,044	672	-	**91,716**	14,476	**106,192**
Investment Director	90,520	483	-	**91,003**	14,476	**105,479**
Business Director	91,044	896	-	**91,940**	14,476	**106,416**
Director of Finance	14,877	-	-	**14,877**	2,365	**17,242**
Head of Skills Education & Employment	76,997	99	-	**77,096**	12,243	**89,339**
Head of Culture & Tourism	76,997	-	-	**76,997**	12,243	**89,240**
Head of Transport	73,221	-	-	**73,221**	7,141	**80,362**
Head of Comms & Marketing	76,997	802	-	**77,799**	12,243	**90,042**
Head of Homes & Communities	76,997	-	-	**76,997**	12,243	**89,240**
TVCA TOTAL	829,059	5,214	-	**834,273**	127,404	**961,677**

TVCA - In July 2018 the Managing Director left his post and interim arrangements were put in place with the Finance Director taking on the role on Interim Managing Director. In December this interim arrangement ended and the Managing Director post was replaced by a Chief Executive post, with the Interim Managing Director filling this post. The Finance Director post has been vacant since the above interim arrangements were put in place with the previous Head of Homes & Communities taking on the role of Head of Finance & Resources. The Head of Transport role has been vacant since December. All other posts have been in post for the full year.

Note 10: Employee remuneration

	TVCA	
	Number of Employees	Number of Employees
	2019/20	2018/19
£50,001 - £55,000	2	1
£55,001 - £60,000	1	1
£60,001 - £65,000	1	-
£65,001 - £70,000	1	-
£70,001 - £75,000	1	-
£75,001 - £80,000	2	-
£80,001 - £85,000	-	-
£85,001 - £90,000	-	-
£90,001 - £95,000	-	-
£95,001 - £100,000	-	-

Remuneration of the Chief Executive and her senior staff has been excluded from the salary range analysis shown in the table above. The senior management restructure that took place has led to an increase in the employees reported in the above table which is offset by the reduction reported in previous senior employees table.

Note 11: Long Term Debtors

	31 March 2020 £000s	31 March 2019 £000s
Central Government	-	-
Local Government	17,369	17,785
Other entities and individuals	51,709	42,981
	69,078	**60,766**

Note 12: Debtors

	31 March 2020 £000s	31 March 2019 £000s
Central Government	2,316	6,016
Local Government	12,838	6,589
Other entities and individuals	3,428	1,025
	18,582	**13,630**

Note 13: Cash and Cash Equivalents

	31 March 2020 £000s	31 March 2019 £000s
Bank and Imprests	1,152	(5,343)
Cash Equivalents	61,500	7,000
	62,652	**1,657**

Note 14: Short Term Creditors

	31 March 2020 £000s	31 March 2019 £000s
Central Government	(269)	(103)
Local Government	(12,973)	(7,057)
Other entities and individuals	(3,249)	(2,053)
	(16,491)	**(9,213)**

Note 15: Other Long Term Liabilities

	31 March 2020 £000s	31 March 2019 £000s
Net pensions liability	(3,937)	(2,330)
Long Tem Borrowing	(29,143)	-
	(33,080)	**(2,330)**

Note 16: Related Party Transactions

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

Central Government

Central government has effective control over the general operations of TVCA – it is responsible for providing the statutory framework within which they operate, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that they have with other parties. Grants received from government departments are set out in the subjective analysis in Note 21.

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in Note 10. During 2019/20, there were no related party transactions between members and TVCA.

Entities Controlled or Significantly Influenced by the Authority

The Code of Practice requires local authorities to produce Group Accounts to reflect significant activities by other organisations in which the Council has an interest. The Combined Authority has considered its interests in this respect, both quantitatively and qualitatively, and has concluded that South Tees Development Corporation (STDC) and Goosepool 2019, are materially significant to the overall financial position of the Combined Authority and are therefore consolidated into the Group Financial Statements.

The tables below set out the income and expenditure during year between TVCA and these organisations.

2019/20	Income Received £000s	Expenditure £000s
South Tees Development Corporation Group	71	1,900
Goosepool 2019 Group	2,331	-
Total	**2,402**	**1,900**

2018/19	Income Received £000s	Expenditure £000s
South Tees Development Corporation Group	65	-
Goosepool 2019 Group	255	-
Total	**320**	**-**

As at 31 March 2020 the below balances were held in the Authority's balance sheet in respect of the controlled organisations.

2019/20	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
South Tees Development Corporation Group	11,215	9,856	13,200
Goosepool 2019 Group	48,080	94	-
Total	**59,295**	**9,950**	**13,200**

2018/19	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
South Tees Development Corporation Group	11,215	94	2,561
Goosepool 2019 Group	40,969	-	-
Total	**52,184**	**94**	**2,561**

TVCA Constituent Authorities

The Leaders and Elected Mayor of the five TVCA constituent Authorities serve as members of the TVCA Leadership Board. Details of income and expenditure with the five Authorities are set out in the table below.

2019/20	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,512	8,172
Middlesbrough Borough Council	4,195	9,999
Redcar & Cleveland Borough Council	4,809	6,334
Hartlepool Borough Council	2,341	5,060
Darlington Borough Council	3,200	8,025
Total	**19,057**	**37,590**

2018/19	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,451	6,150
Middlesbrough Borough Council	4,636	7,285
Redcar & Cleveland Borough Council	5,156	10,135
Hartlepool Borough Council	2,427	7,127
Darlington Borough Council	3,235	3,111
Total	**19,905**	**33,808**

As at 31 March 2020 the below balances were held in the Authority's balance sheet in respect of the constituent authorities.

	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
Stockton On Tees Borough Council	-	331	339
Middlesbrough Borough Council	2,924	735	307
Redcar & Cleveland Borough Council	-	2,562	133
Hartlepool Borough Council	-	2,008	176
Darlington Borough Council	3,230	295	637
Total	**6,154**	**5,931**	**1,592**

As at 31 March 2019 the below balances were held in the Authority's balance sheet in respect of the constituent authorities.

	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
Stockton On Tees Borough Council	-	369	752
Middlesbrough Borough Council	3,240	311	2,937
Redcar & Cleveland Borough Council	-	2,183	169
Hartlepool Borough Council	100	1,810	107
Darlington Borough Council	3,230	1,128	331
Total	**6,570**	**5,801**	**4,296**

Note 17: External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts and to non-audit services provided by the Authority's external auditors:

	TVCA 2019/20 £000s	TVCA 2018/19 £000s
Fees payable to Mazars LLP with regard to external audit services	23	29
	23	29
Rebate from Public Sector Audit Appointments Ltd	*(3)*	

Note 18: Leases

Operating leases: TVCA as lessee

From the 1st January 2017 the TVCA took on the lease of the third floor of Cavendish House. The new lease is for a term of 10 years. The minimum lease payments due in future years are:

Future minimum lease payments due	**2019/20 £000s**	2018/19 £000s
Not later than one year	152	152
Later than one year & not later than five years	608	608
Later than five years	266	418
	1,026	1,178

Note 19: Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year by TVCA is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the bottom part of this note.

	31 March 2020 £000s	31 March 2019 (Restated) £000s
Opening Capital Financing Requirement	**40,698**	**-**
Capital investment		
Revenue expenditure funded from capital under statute	33,831	51,564
Loans for Capital Investment	7,702	56,589
Sources of Finance		
Government grants and other contributions		-
	(33,822)	(65,060)
Sums set aside from revenue:		
Direct revenue contributions	(9)	(2,395)
Minimum Revenue Provision (MRP)	(1,224)	0
Closing Capital Financing Requirement	**47,176**	**40,698**

Note 20: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20.

	TVCA 2019/20 £000s	TVCA 2018/19 £000s
Credited to Taxation and Non Specific Grant Income		
Local Growth Fund	234	-
Transforming Cities Fund	12,266	2,921
National Productivity Investment Fund	-	1,555
DfT Local Majors	-	500
Total	**12,500**	4,976
Credited to Services		
Adult Education Budget	15,936	285
AGE	1	-
BEIS Local Energy Capacity Support	405	294
BEIS Growth Hub	246	246
BEIS Rural Community Energy Fund	123	-
DECC - City Deal / Carbon	-	33
Devolution	15,000	15,000
DfT Access Fund	1,022	1,109
DfT Local Majors	-	-
DWP Routes To Work	2,053	1,157
ERDF Business Compass	4,451	4,196
ESFA Apprenticeship	-	5
ESIF Technical Assistance	23	25
EU Exit Preparation Fund	104	-
Heat Network District Unit	147	70
HLF Great Places	460	521
Homeless Veterans Fund	91	-
LEP Core	500	500
Local Growth Fund	9,182	13,708
Local industrial Strategy	138	20
Local Transport Plan	13,930	13,943
Mayoral Capacity Funding	1,000	1,000
MCA Funding	-	199
National Productivity Investment Fund	5,050	1,719
Pothole Action Fund	534	253
Skills Analysis	25	-
Transforming Cities Fund	734	1,079
	71,155	55,362

Capital and Revenue Grants Receipts in Advance

	TVCA 2019/20 £000s	TVCA 2018/19 £000s
Adult Education Budget	2,642	18
BEIS Local Energy Capacity Support	1,113	933
DfT Access Fund	29	-
DWP Routes To Work	2,658	2,210
EU Exit Preparation Fund	250	91
Heat Network District Unit	44	191
Homeless Veterans Fund	-	91
Local Industrial Strategy	241	180
One Public Estates	136	136
Opportunity North East	4	-
Pothole Action Fund	-	534
Rural Community Energy Fund	1,560	1,500
Skills Analysis Panel	50	75
Total	**8,727**	5,959

Note 21: Financial Instruments

Categories of Financial Instruments

IFRS9 Financial Instruments is the new accounting standard for investments, borrowing, receivables and payables, which came into affect for all Local Authorities from the 2018/19 financial year.

Financial instruments are recognised on the Balance Sheet when the Authority becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Authority. The financial assets held by the Authority during the year are accounted for under the following three classifications:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet .their contractual commitments to the Authority.
During the year adjustments to the value of £8.8 million have been charged to the CIES to take account of this allowance in line with the requirements under IFRS9.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Authority. The majority of the Authority's financial liabilities held during the year are measured at amortised cost and comprised of llong term loans from Public Works Loans Board and trade payables for goods and services received

Financial Instruments

The value of debtors and creditors reported in the tables below are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Short Term	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	69,078	60,766	81,012	41,920
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial assets	**69,078**	60,766	**81,012**	41,920

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Short Term	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	(29,143)	-	(16,990)	(14,916)
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial liabilities	**(29,143)**	-	**(16,990)**	(14,916)

Note 21: Financial Instruments

Financial Instruments - Fair Values

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cashflows at 31st March 2020.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. Pooled Property Fund based on the latest market vaule from quarterly unaudited accounts.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability. For PWLB loans payable, PWLB premature repayment rates. For non-PWLB loans payable, prevailing market rates.
- Level 3 – fair value is determined using unobservable inputs. Loans are based on estimated creditworthiness takign into account security held against loans.

Financial Assets	**Level**	**Balance Sheet**	**Fair Value**	**Balance Sheet**	**Fair Value**
		31 March 2020		31 March 2019	
		£000s	**£000s**	£000s	£000s
Money Market Funds	1	62,006	62,006	29,157	29,157
Loans to Subsidiaries	3	59,295	59,295	52,183	52,183
Loans To Local Authorities	3	6,571	6,571	9,745	9,745
Loans To Companies	3	3,720	3,720	2,013	2,013
Other Short Term Assets*	N/A	18,498	18,498	9,588	9,588
Total Financial Assets		**150,090**	150,090	**102,686**	102,686
Recorded on Balance Sheet as:-					
Long Term Debtors		69,078		60,766	
Short Term Debtors		19,006		12,763	
Long Term Investments		-		-	
Short Term Investments		-		27,500	
Cash and Cash Equivalents		62,006		1,657	
Total Financial Assets		**150,090**		**102,686**	

* The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

Financial Liabilities	**Level**	**Balance Sheet**	**Fair Value**	**Balance Sheet**	**Fair Value**
		31 March 2020		31 March 2019	
		£000s	**£000s**	£000s	£000s
Long Term PWLB Loans	2	(30,000)	(32,970)	-	-
Other Short Term Liabilities*	N/A	(16,133)	(16,133)	(14,916)	(14,916)
Total Financial Liabilities		**(46,133)**	(49,103)	**(14,916)**	(14,916)
Recorded on Balance Sheet as:-					
Short Term Creditors		(16,133)		(14,916)	
Short Term Borrowing		(857)		-	
Long Term Creditors		-		-	
Long Term Borrowing		(29,143)		-	
Total Financial Liabilities		**(46,133)**		**(14,916)**	

* The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

Note 21: Financial Instruments

Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Authority's activities expose it to a variety of financial risks; the key risks are:

- **credit risk –** the possibility that other parties might fail to pay amounts due to the Authority
- **liquidity risk –** the possibility that the Authority might not have funds available to meet its commitments to make
- **re-financing risk –** the possibility that the Authority might be requiring to renew a financial instrument on maturity at
- **market risk –** the possibility that financial loss might arise for the Authority as a result of changes in such measures as

Credit Risk: Treasury Investments

The Authority manages credit risk by ensuring that treasury investments are only placed with organisations of high credit

	2019/20		2018/19	
	Long Term	Short Term	Long Term	Short Term
Credit Rating	**£000s**	**£000s**	**£000s**	**£000s**
AAA	-	-	-	-
AA+	-	-	-	-
AA	-	-	-	-
AA-	-	37,500	-	-
A+	-	19,000	-	14,000
A	-	-	-	-
A-	-	-	-	500
Unrated Local Authorities	-	5,000	-	20,000
Total financial assets	**-**	**61,500**	-	34,500

Liquidity Risk

Market Risk

- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services will
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the (Surplus) or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the (Surplus) or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2019/20	2018/19
	£000s	£000s
Increase in interest payable on variable rate borrowings		-
Increase in interest receivable on variable rate investments	(152)	(150)
Impact on (Surplus) or Deficit on the Provision of Services	**(152)**	(150)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being

Price Risk: *The Authority, excluding the pension fund, does not invest in equity shares or marketable bonds.*

Foreign Exchange Risk: *The Authority has no financial assets or liabilities denominated in foreign currencies and*

Note 22: Defined Benefit Pension Schemes

Participation in Pension Schemes
As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Guaranteed Minimum Pension (GMP) and McCloud Judgement
At 31 March 2019 the group did not make any amendments for the potential impact of GMP and the McCloud Judgement and these were reflected as contingent liabilities. The actuary report dated 31 March 2020 has included within its calculations the impact of both of these cases. Any increase in liabilities at 31 March 2020 arising from the impact of GMP has been charged through other comprehensive income. The potential McCloud judgement liability has been presented as a past service cost this year.

Transactions Relating to Post-employment Benefits
We recognise the cost of retirement benefits 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 we are required to make against Authority resources is based on the cash payable in the year, so the real cost of post employment/retirement 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:

Note 22: Defined Benefit Pension Schemes

	Local Government Pension Scheme	
	2019/20	2018/19
	£000s	£000s
Comprehensive Income and Expenditure Statement		
Cost of Services:		
· Current service cost	1,273	1,042
· Past service cost	91	10
Financing and Investment Income and Expenditure		
Net interest cost	50	46
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**1,414**	1,098
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
· Return on plan assets (excluding the amount included in the net interest expense)	668	(338)
· Actuarial gains and losses arising on changes in financial assumptions	(304)	436
· Actuarial gains and losses due to liability experience	769	-
· Actuarial gains and losses due to changes in demographic assumptions	(306)	(380)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**827**	(282)
Movement in Reserves Statement		
· Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(1,414)	(1,098)
Actual amount charged against the General Fund Balance for pensions in the year:		
· Employers' contributions payable to scheme	**634**	**537**

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is (£0.827m).

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme	
	2019/20	2018/19
	£000s	£000s
Present value of defined benefit obligation	(11,668)	(9,314)
Fair value of assets	7,731	6,984
Net liability recognised in the Balance Sheet	**(3,937)**	(2,330)

Note 22: Defined Benefit Pension Schemes

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme	
	2019/20	2018/19
	£000s	£000s
Opening fair value of scheme assets	6,984	5,643
Interest income	190	158
Remeasurement gains and (losses)	(668)	338
Contributions from the employer	634	537
Contributions from employees into the scheme	291	252
Benefits paid	300	56
Closing balance at 31 March 2020	**7,731**	6,984

Reconciliation Of Present Value Of The Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme	
	2019/20	2018/19
	£000s	£000s
Opening balance at 1 April 2019	(9,314)	(7,694)
Current service cost	(1,273)	(1,042)
Interest cost	(240)	(204)
Contributions by scheme participants	(291)	(252)
Actuarial gains and losses - financial assumptions	304	(436)
Actuarial gains and losses - demographic assumption	306	380
Actuarial gains and losses - liability experience	(769)	-
Benefits paid	(300)	(56)
Net increase from acquisitions		-
Past service cost	(91)	(10)
Closing balance at 31 March 2020	**(11,668)**	(9,314)

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets		Fair value of scheme assets	
	2019/20		2018/19	
	£000s	**%**	£000s	%
Equity investments (Quoted)	5,620	72.7%	5,021	71.9%
Property (Quoted)	688	8.9%	643	9.2%
Government Bonds	-	0.0%	-	0.0%
Corporate Bonds	-	0.0%	-	0.0%
Cash	1,036	13.4%	1,173	16.8%
Other Investments	387	5.0%	147	2.1%
	7,731	**100%**	6,984	100%

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. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2019.

Note 22: Defined Benefit Pension Schemes

The principal assumptions used by the actuary have been:

	2019/20	2018/19
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.8	22.2
Women	23.5	24.1
Longevity at 45 for future pensioners:		
Men	23.2	23.9
Women	25.3	25.9
Other assumptions:		
Rate of inflation (CPI)	1.8%	2.1%
Rate of increase in salaries	2.8%	3.1%
Rate of increase in pensions	1.8%	2.1%
Rate of Pension accounts revaluation rate	1.8%	2.1%
Rate for discounting scheme liabilities	2.3%	2.5%
Take-up of option to convert annual pension into retirement lump sum	80.0%	80.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme

	Increase	**Base Figure**	**Decrease**
	£000s	**£000s**	**£000s**
Longevity (increase or decrease in 1 year)	12,041	11,668	11,299
Rate of increase in salaries (increase or decrease by 0.1%)	11,720	11,668	11,617
Rate of increase in pensions payment (increase or decrease by 0.1%)	11,942	11,668	11,402
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	11,358	11,668	11,986

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Authority anticipates to pay £0.609m contributions to the scheme in 2020/2021.

The weighted average duration of the defined benefit obligation for scheme members is 26.9 years.

Note 23: Termination Benefits

TVCA did not terminate the contract of any employees in 2019/20.
The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band**	
	2019/20	2018/19	**2019/20**	2018/19	**2019/20**	2018/19	**2019/20 £000s**	2018/19 £000s
£1 to £20,000	-	-	-	1	-	1	-	10
£20,001 to £40,000	-	-	-	1	-	1	-	30
£40,001 to £60,000	-	-	-	-	-	-	-	-
£60,001 to £80,000	-	-	-	-	-	-	-	-
£80,001 to £100,000	-	-	-	-	-	-	-	-
£100,001 to £150,000	-	-	-	-	-	-	-	-
£150,001 to £200,000	-	-	-		-	-	-	-
Total	**-**	-	**-**	2	**-**	2	**-**	40

Note 24: Provisions

There are no provisions for the Authority (2018/19 Nil)

Note 25: Contingent Liabilities

In 2018/19 contingent liabilities were disclosed in relation to Guaranteed Minimum Pension (GMP) and the McCloud Judgement. The actuaries report on the pension fund as at 31 March 2020 took the impact of both of these into account and as such are now held within the liabilities in the pension fund.

(2018/19 GMP £28k, McCloud Judgement £196k)

Note 26: Post Balance Sheet Events

There are no post balance sheet events to report for the Authority for the Authority (2018/19 Nil)

Note 27: Statement of Accounting Policies

General Principles
The Statement of Accounts summarises TVCA's and Group transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. They are required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Group Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).
Upon consolidation of the Group accounts all subsidiary accounting policies are aligned to those of the Authority.

Accruals of Income and Expenditure
Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Income from the sale of goods is recognised when the Group transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- Income from the provision of services is recognised when the Group can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.
In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors
Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.
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 Group'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.
Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Employee Benefits
Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Group. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Note 27: Statement of Accounting Policies

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Group to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Group can no longer withdraw the offer of those benefits or when the Group recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Group to the pension fund or pensioner in the year.

Post Employment Benefits
Employees of the Group are members of one pension scheme:

- The Local Government Pensions Scheme, administered by Middlesbrough Borough Council.

The schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Group and its predecessor.

The Local Government Pension Scheme
The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Teesside Pension Fund attributable to the Group are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the Aon Hewitt GBP Central AA Curve.

- The assets of the Teesside Pension Fund attributable to the Group are included in the Balance Sheet at their fair value:
  quoted securities – current bid price
  unquoted securities – professional estimate
  unitised securities – current bid price
  property – market value.

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- *current service cost:* the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- *past service cost*: the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- net interest on the net defined benefit liability: i.e. net interest expense for the Group - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- *the return on plan assets* - excluding amounts included in the net interest on the net defined benefit liability - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- *actuarial gains and losses:* changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Teesside Pension Fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Group to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. 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 are earned by employees.

Note 27: Statement of Accounting Policies

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 Financial Statements are 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 Financial Statements are 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 financial statements.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:
- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI) [separate accounting policy is required where an authority holds financial instruments at fair value through other comprehensive income].

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.
The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:
- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis. The inputs to the measurement techniques are categorised in accordance with the following three levels:
- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset. Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a fi nancial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

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 Council 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 within the general fund. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Note 27: Statement of Accounting Policies

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Group when there is reasonable assurance that:

- the Group will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Group are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where Capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to fi nance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Note 27: Statement of Accounting Policies

Intangible Assets
Expenditure on non monetary assets that do not have physical substance but are controlled by the Group as a result of past events are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Group.

Inventories
Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is determined on the basis of the initial invoice price.

Investment Property
Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.
Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Leases
Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.
Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.
Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Operating Leases as Leasee
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Operating Leases as Lessor
Where the Group grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services
The costs of overheads and support services are charged to service segments in accordance with the Group's arrangements for accountability and financial performance.

Property, Plant and Equipment
Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition
Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement
Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Note 27: Statement of Accounting Policies

The Group does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Group). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Group.

Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:
- infrastructure assets – depreciated historical cost
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective in line with IFRS13.
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every three years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.
Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Impairment
Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.
Where impairment losses are identified, they are accounted for by:
- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation
Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:
- buildings – straight line allocation over the useful life of the property as estimated by the valuer
- plant, furniture and equipment – straight line over the useful life of the asset, as advised by a suitably qualified officer
- infrastructure – straight line allocation over a period of 10 to 40 years.

Note 27: Statement of Accounting Policies

Goodwill

The CIPFA Code states that the acquisition method should be adopted through the initial business combination following IFRS 3 for guidance and refers to IAS 36 for consideration of goodwill.

Identifiable assets acquired, liabilities assumed, and non-controlling interests in the acquiree, are recognised separately from goodwill. All assets acquired and liabilities assumed in a business combination are measured at acquisition-date fair value.

Goodwill is measured as the difference between:

• the aggregate of (i) the value of the consideration transferred (generally at fair value), (ii) the amount of any non-controlling interest, and

• the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed

After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost/ revaluation less accumulated amortisation and accumulated impairment losses.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Group may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Contingent Liabilities & Contingent Assets

A contingent liability arises where an event has taken place that gives the Group a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group. A contingent asset arises where an event has taken place that gives the Group a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

The Group sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Group expenditure.

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Group.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Group has determined to meet the cost of this expenditure from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged.

VAT

VAT on income and expenditure is included only to the extent that it is not recoverable from HM Revenue and Customs.

Note 27: Statement of Accounting Policies

Fair Value Measurement

The Group measures some of its non-financial assets, and some of its financial instruments at fair value at each reporting date. Fair value is 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. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Group measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Group takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. this takes into account the three levels of categories for inputs to valuations for fair value assets:

· Level 1 - quoted prices

· Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

· Level 3 - unobservable inputs for the asset or liability.

Appendix A

Glossary of Terms

Accruals
The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortised cost
The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount. International Accounting Standard (IAS) 39 requires the amortised cost to be calculated using the effective interest method.

Capital Charge
A charge to service revenue accounts to reflect the cost of non current assets used in the provision of a service.

Capital Expenditure

Expenditure on the acquisition of a non current asset or expenditure designed to extend its useful life.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingency
A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non occurrence of one or more uncertain future events.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non current asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

Effective interest method
This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument to the net carrying amount at initial recognition.

Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items, merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Appendix A

Glossary of Terms

Finance Lease

A lease that transfers substantially all the risks and rewards of ownership of a non current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Going Concern

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

Inventories

Comprise the value of items held in the following categories:

a) goods or other assets purchased for resale;
b) consumable stores;
c) raw materials and components purchased for incorporation into products for sale;
d) products and services in intermediate stages of completion;
e) long term contract balances; and
f) finished goods.

Investments

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria are classified as current assets.

Long Term Contracts

A contract entered into for the design, manufacture or construction of a substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts, if they are sufficiently material to the activity of the period.

Net Book Value

The amount at which non current assets are included in the balance sheet i.e. the historical cost or current value, less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the costs of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of a non operational asset), less any expenses incurred in realising the asset.

Appendix A

Glossary of Terms

Non Current Assets
Tangible assets that yield benefits to the Authority and the services it provides for a period of more than one year.

Non Operational Assets
Non current assets held by a Authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Lease
A lease other than a finance lease.

Operational Assets

Non current assets held and occupied, used or consumed by the Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Prior Year Adjustments

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

Prudence

The concept that revenue is not anticipated, but is recognised only when realised, in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Usable Reserves
Amounts set aside to meet future costs, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Unusable Reserves

Reserves that not available to spend; this category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

AGENDA ITEM 10

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

19th NOVEMBER 2020

REPORT OF THE GROUP DIRECTOR OF FINANCE AND RESOURCES

CORPORATE RISK REGISTER

SUMMARY

This report presents the Tees Valley Combined Authority Corporate Risk Register as at November 2020. The risk register is reviewed on a regular basis by senior management and sets out the key corporate risks that have been identified.

RECOMMENDATIONS

It is recommended that Audit and Governance Committee consider the risk analysis as set out in Risk Register.

DETAIL

1. This report presents the Tees Valley Combined Authority Corporate Risk Register as at November 2020. The risk register is prepared in accordance with the Combined Authority Risk Management Framework and is reviewed on a regular basis by senior management. The risk register sets out the:

   - key corporate risks that have been identified;
   - type of risk e.g. legal, reputational, financial;
   - consequences if the risk is realised;
   - risk owner;
   - controls in place to manage the risk;
   - net risk score determined by probability and impact;
   - additional controls to be put in place and tracking implementation.

FINANCIAL IMPLICATIONS

2 There are no direct financial implications arising from this report.

LEGAL IMPLICATIONS

3. There are no direct legal implications arising from this report.

RISK ASSESSMENT

4. This content of this report is categorised as low to medium risk.

CONSULTATION

5. None required.

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					Net Risk Score								
Ref	Risk description/ Category	Consequences	Owner	Current Controls	Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Reasons for change since last quarter	Further Controls Required	Deadline	Comments	Review Date
C01	Failure to secure agreement on new future investment priorities. (INVESTMENT PLANNING)	• Delay in agreeing and approving projects to go into Investment Programme, potentially affecting spend • Impacts TVCA's reporting on progress to Government • Adverse effect on 5 year Government funding conversation and ability to bid successfully for other funding for projects • Failure to achieve SEP targets and outcomes • Reputational damage	Group Commercial Director/ Group Chief Executive	•TVCA Cabinet has overall responsibility for developing & delivery of SEP, Investment decisions and allocation of resources. • Proposals developed at early stage with Leaders & Mayor, LEP members, chief officers, partners and Government departments • Agreement to Investment Plan • Investment report on every Cabinet agenda as standing item • Additional EOIs reviewed as received • Oversight by TV Management Group • Quarterly performance reporting being developed • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19 • Assurance Framework agreed by Cabinet and submitted to Government - now adopted • New processes and delegations agreed and implemented • Investment Plan Review agreed at Cabinet January 2020	5	2	10			On-going dialogue with Mayor and Leaders on the Investment Plan review. Process under discussion for agreeing Culture programme, with a view to a report coming to Cabinet in November 2020.		•New Assurance Framework approved by Cabinet in March, along with Investment Plan Q3 Update. Transport Programme approved by Cabinet. Annual Investment Plan review pending as part of Business Planning process. Report on proposed Culture programme going to Cabinet November 20	Dec-20
C02	Impact of EU Exit including financial uncertainty and economic instability that affects national policy in relation to devolution and impact on ability to progress TVCA devolution strategy; in particular uncertainty on UK successor regime to ESIF funding (UKSPF) and the loss of Local Growth Funding. (FINANCIAL)	• Loss of funding for Tees Valley compared to previous ESIF position • Failure to maximise opportunities for funding for Tees Valley under replacement arrangements •Increased funding to address economic shocks • Need to mobilise support to businesses and communities •Reduced Inward Investment activity •Loss of key businesses •Loss of jobs • Increased deprivation	Group Chief Executive/Group Commercial Director	• Ongoing engagement with Leaders & Mayor, Chief Officers and Government departments • Continuation of focus on TVCA delivery of objectives and SEP • Secured ESIF guarantee from Government • Engagement with Government on future funding plans post Brexit, including tracking progress with development of proposed UK Shared Prosperity Fund • Action plan agreed for utilising remainder of ESIF funding • Working with partners on proposals for current open call (closing Aug19) •EU Exit Action Plan being prepared •Funding to support businesses being developed •Potential impacts being monitored •Joint LA and partner EU Exit group established •LEP/Growth Hub business intelligence gathering and business engagement being undertaken	4	3	12	↓8		• Liaison with other CAs/LEPs	Ongoing	Regular liaison with Government on progress with UK Shared Prosperity Fund. Internal process for external bid information recently strengthened and now subject to regular review by Directors. Checking central process for reallocation of ESIF funding taken back centrally by Government (July 2020). Still awaiting news of new UKSPF, due to Covid delays	Dec-20
C03	Failure to secure sufficient additional resources to fund proposed activity. (FINANCIAL)	• Impacts ability to deliver SEP targets and outcomes • Reputational damage	Group Commercial Director/ Group Finance & Resources Director/Chief Executive	• Robust Budget,Investment Plan and Medium Term Financial Plan, Treasury Management Strategy 2020/21 to TVCA Cabinet March 2020 • Submission of high calibre bids for external funding • Identifying opportunities for efficiency and greater impact • Ongoing review of EZ income potential • Ongoing review of commercial potential of individual projects and TVCA borrowing potential/limits • Ten Year Investment Plan 2019-29 agreed (including funding plan) • Regular meetings between Mayor and Government Ministers • Progress with external funding bids reported quarterly to TVMG	4	3	12			• Investments identified in Local Industrial Strategy need to feed into Investment Plan and other external sources • Tightening up bidding process - approval to bid and actual bid sign off •Business Case development and submissions to Government • Funding bids to Government as part of economic recovery and levellin gup agenda •SQW gateway review for Devolution funding - comprehensive programme of activity and evidence available.		•TVCA bids submitted to ERDF Open Calls •Ongoing discussions with Government on specific projects and funding requirements •TVCA Directors met with Chief Secretary to the Treasury- Rishi Sunak, now Chancellor of the Exchequer, and Senior Govt Officials to discuss funding on 17th Jan 2020. •Internal process for external bid information recently strengthened and now subject to regular review by Directors. Agreed Culture Programme (Cabinet Nov 20) should facilitate future funding discussions eg Arts Council, HLF •Business Case and associated requested material submitted to Government for Offshore Wind. Continuing to press for for major transport projects - Transport Prospectus prepared to facilitate funding emngagement with DfT. Additional funding of £183m secured from various Government sources since the last MTFP update. The November Cabinet will receive full updates on the breakdown of these sums. Full details of UK Shared Prosperity Fund still awaited from Central government. The TVCA Investment Plan incorporates assumptions for post Brexit funding in this regard. Future Transport funding ask of Government incorporated within transport prospectus agreed at Cabinet	Dec-20

C04	Transport specific funding secured from government is not sufficient to meet TVCA programme aspirations e.g. significant local contributions sought that are not affordable and/or TCF not awarded on ongoing annual basis. (FINANCIAL)	• Not all planned transport projects can be delivered • Unable to deliver future pipeline of projects currently in development • Harder to leverage other funding • Reputational damage	Group Commercial Director/ Head of Transport	• Transport programme approved by Cabinet January 2020 • Programme shared with DfT • Reporting to DfT on progress with TCF spending/delivery • Ongoing liaison with DfT re specific projects e.g. New Tees Crossing, Darlington Northern Link Road, Darlington Station, Middlesbrough Station • Ongoing discussions with key partners e.g. Northern Rail, Train Operators, TfN & Highways England • Annual conversation with government - able to demonstrate good progress on delivery (Oct 2020) • Briefing The Mayor to lobby Government - discussions ongoing on specific project funding requirements • Transport Investment Prospectus approved by Cabinet 29/05/20 and shared with Government • High quality business cases in development across the programme	4	3	12	-	No change. All controls being progressed, but no confirmation from DfT on future devolved funding allocation			•Discussions ongoing on specific project funding requirements. DfT funding for further development of Darlington (£8.7m) and Middlesbrough (£2.45m) station projects secured June 2020. Seeking a decision to deliver by DfT on Darlington Station between July - Sept 2021. This would release the funding required to deliver the whole project. • Outline Business Case for new Tees Crossing re-submitted to Govt in Oct 2020 and working with Highways England on a transition plan. • Outline Business Case for Darlington Northern Link Road being developed for Jan 2021. • Additional funding secured through other funding pots, for example £9.65m for Middlesbrough Station from Getting Building Fund and £2.1m bid into Emergency Active Travel Fund Tranche 2 for cycling improvements (outcome of bid still awaited).	Dec-20
C05	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation. (FINANCIAL)	• Delay to delivery of STDC planned development • Potential effect on TVCA's other funding priorities • TVCA cannot itself meet funding requirements • Loss of potential inward investment into Tees Valley, and other opportunities to meet SEP objectives • Reputational damage	Chief Executive/ Group Director of Finance & Resources	• STDC established as legal entity 1st Aug 2017 • Official launch 23rd August 2017 • STDC Constitution requires significant financial matters to be referred to TVCA Cabinet • TVCA FD is also FD of STDC • STDC Board meeting regularly • Continued dialogue with Government • £123m funding secured in 2017 Budget • £14m in 2018 budget • CSR Business Case to HMG 2019 • New Chief Exec of STDC recruited •New STDC structure proposals to enhance operational capacity/capability •Joint venture private sector partners in place •Establishment of STDC Delivery Group with Joint Venture partners to support focused delivery •TVCA Assurance framework confirmed as overall local assurance processes	4	3	12			•Detailed STDC Area assessments and statutory studies required to inform longer term funding requirements •Funding flexibility sought from Government to enable effective local control	31/12/20	• Secured £71m Government funding from Treasury, supported by MHCLG/BEIS. Successful negotiations with SSI regarding CPO Objections • Full Business Case submitted to Government for South Tees Regeneration (STDC) - successful in securing £125m from Government including the transition of South Tees Site Company Ltd to local control on 8 October 2020. Financial model reviewed at CPO inquiry and Planning Inspector commente don robustness of model and requirement for STDC to demonstrate sustainable model was satisfied. The successful Government funding values above are in line with the model.	01/07/2020 CLOSED
C06	Obligations undertaken by STDC have potential financial impact on TVCA	• Strain on TVCA funding availability • Potential effect on other TVCA funding programmes • Reputational damage	Group Director of Finance & Resources	• STDC Constitution requires significant financial matters to be referred to TVCA Cabinet • TVCA FD is also FD of STDC •Development of a STDC programme management structures • Aligning STDC reporting updates with TVCA •New STDC structure proposals to enhance operational capacity/capability	4	2	8			Securing successful CPO to consolidate land ownership and support comprehensive regeneration Manage any Judicial review submissions effectively with specilist legal advice (Both CPO confirmation stage and General vesting declaration stage)	Oct-20	Secured £71m Government funding from Treasury, supported by MHCLG/BEIS. Successful negotiations with SSI regarding CPO Objections CPO confirmed as successful in April 2020. Planning Inspector ruled final decision in STDC favour at CPO without any modifications. CPO confirmation notices made and first general vesting declaration for SSI land/assets issued. SSI / Thai Banks failed to meet deadline set for ratification of agreement. CPO continues as originally planned. Full Due Diligence activity of STSC conducted by TVCA Group legal and financial advisers ensuring that all potential issues are identified and mtigated. The financial model has an element predicated on the removal of the Upper Tier COMAH status from the site and subsequent cost reductions. Detailed activity is in progress to develop implementation plans n respect of this. The funding model is also predicated on the initial Government funded regeneration of the site leading to securing of leaseholders, with strong covenant strength, to enable funding of onward development of the site. All of the key funding and financial considerations associated with STDC have been reported to STDC Board and Cabinet.	Dec-20

C07	Failure to provide sufficient capacity to deliver TVCA functions. (DELIVERY)	• Delays in terms of TVCA business being transacted, decisions being made and funding being defrayed • Potential loss of investment into Tees Valley • Delays in achieving SEP and Investment Plan outputs and outcomes • Potential effect on ability to bid credibly for additional funding • Key staff may decide to leave organisation • Reputational damage	Group Chief Executive	• Oversight by Senior Management Team •Reviews being implemented •Recruitment under way in key areas (eg AEB devolution) •Further reviews as part of annual medium term financial plan to go to January Cabinet •Implementation of reviews under way	4	3	12	-				New Chief Legal Officer recruited Sept 20 (Peter Judge)	Dec-20
C09	Failure to build and maintain relationships with key partners. (REPUTATIONAL)	• Potential impact on LEP and its operation • More difficult to maximise opportunities to access significant external funding which requires a partnering approach • Delays to agreement and delivery of Investment Programme • Risk to achievement of SEP targets and outcomes • Reputational damage	Group Chief Executive/ Senior Leadership Team	• Regular Cabinet meetings (including LEP Board members) •Regular portfolio holders meetings and briefings • Directors/Heads meeting LA officers regularly • MOU agreed with Teesside University • Regular liaison with other key partners eg. CPI, MPI, TWI, Digital City • Regular liaison with other key government agencies (and others) eg. Homes England, Highways England, HLF, Arts Council, BLF, TfN etc • Perception study undertaken •Work closely with M9, NP11 and other groupings	4	2	8	-				Draft SQW report receievd and under reviews, which focuses on this aspect of TVCA operation. Generally positive on this aspect.	Dec-20
C10	Uncertainty within the economy and/or the political environment (DELIVERY)	• Potential delay to agreement of TVCA priorities and approval of any additional funding • Potential delay in delivering SEP targets and outcomes • Reputational damage	Group Chief Executive	• Engagement with local MPs • Engagement with local authorities	4	3	12	-		• Engagement with national parties •Develop relationships with new MPs and Ministers	Ongoing	Ongoing discussions between Mayor and Government Departments	Dec-20
C11	Failure to pass the first Gateway Review. (FINANCIAL) See sub risks A & B below	• Inability to deliver Ten Year Investment Plan and strategic investments and achieve SEP outcomes • Increased workload/resources required to address issues • Risk to future funding of organisation • Significant reputational damage	Group Finance & Resources Director	• Bi-monthly meeting with Government officials and on-going dialogue • Assurance framework (monthly conversation with BEIS) • Internal Audit arrangements • Annual conversations with Government • Mayor meets with Government Ministers • Funding cannot progress to final approval unless it meets the Assurance Framework process. • Staff trained on the Assurance Framework to ensure it is being adhered to • Tees Valley baseline prepared by SQW • Evaluation plan agreed between SQW, Tees Valley & government •Internal Audit reviewing processes over last 12 months	5	2	10			• Quarterly reporting to Cabinet on Investment outputs and outcomes to be introduced • Annual Review to be undertaken •End to End process presentations to more teams in diary	Oct-19 Dec -20	Awaiting SQW "One Year Out" report. SQW Draft report received and currently under review in line with the agreed timetable. A report is scheduled for November 2020 Cabinet following the review activity.	Nov-20

C11-A	• Failure to deliver the existing pipeline of funding commitments and achieve targeted spend. (DELIVERY)	• Impacts TVCA's reporting on progress to Government • Adverse effect on 5 year Government conversation & ability to bid successfully for other funding • Failure to achieve SEP targets and outcomes • Reputational damage	Group Commercial Director/Group Finance & Resources Director	• Creation and utilisation of Advanced Funding to provide upfront investment in feasibility work • Programme monitoring and review • Assurance Process in place • Investment Plan Risk Register operational • Regular Investment Panel meetings • Regular liaison with BEIS • Monthly spend reviews in place • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19 • Revised Assurance Framework in place • Quarterly review of progress against internal business plan targets • Investment Plan delivery progress reported to Cabinet quarterly •Investment Plan Review was agreed at Cabinet January 2020. •Investment Plan Performance Report going to March 2020 Cabinet	5	2	10	-		Deliver TVCA Group structure implementation activity Deliver TVCA Group Business Intelligence procurement and implementation Deliver STDC Delivery Group Governance in line with Full Business Case Deliver TVCA Group monthly Performance Management reviews with Executive Team		Business planning process being strengthened, including regular in depth reviews by Directors of each team's performance against plan. Group Structure proposals for Senior Executive team approved by TVCA Cabinet Business Intelligence procurement in progress and scheduled to complete August 2020 with implementation Q3-Q4. The procurement of this activity has been extended to ensure all requirements are captured across the new Group. This is now scheduled to complete December 2020 with delivery in Q4. STDC Delivery Group established and operational. Additional material and requirements post FBC submission currently being implemented. Performance dashboards in development on legacy systems for Q1 reporting to Executive Team. Migration to Business Intelligence solution Q3-Q4. The migration is anticipated to be Q4. TVCA Group Performance meetings now established and operational led by the CEO and Directors and incorporating all known updates across the Group from senior management.	Dec-20
C11-B	Failure to manage funding in order to deliver maximum value for money. (FINANCIAL)		Group Director of Finance & Resources	• Revised Assurance Framework approved by Cabinet on 13th March prior to submission to Government	4	2	8	-		• Review to ensure appropriate development, appraisal and assurance processes are operating effectively and efficiently • Staff briefing sessions on the whole process •Develop Governance toolkit for TVCA Group - single source of truth for staff	Dec-20	Business Intelligence procurement in progress and scheduled to complete August 2020 with implementation Q3-Q4 Governance Toolkit development commenced with implementation for Q3. Business case process kept under review, including VFM perspective. Draft SQW report received and under review TVCA Assurance Framework regularly reviewed and new Group Chief Legal Officer appointed to work alongside other stautory officers.	Dec-20
C12	Failure to detect fraud. (FINANCIAL)	• Loss of funds that cannot be recovered and applied to required spend objectives • Staff resources required to manage any instances • Reputational damage	Group Director of Finance & Resources	• Internal audit arrangements • External audit arrangements • Internal expenditure approvals process • Assurance Framework for Investment • Review of internal expenditure process undertaken • Staff induction process	5	2	10	-		Deliver TVCA Group Business Intelligence procurement and implementation	Ongoing	Regular monitoring of claims via Finance and Resources team each month currently. Risk based monitoring activity to be introduced to maximise effort on those areas of risk. TVCA Group Performance meetings will incorporate a regular assessment and review of activity across the Group each month.	Dec-20
C13	Failure to properly manage AEB Budget	• Reduction in availability of skills training in the region. •Financial impact on FE priorities •COVID impact on delivery and potential to deliver in the future New government initiatives in response to COVID undermine or directly compete with AEB programme New national skills programmes undermine the devolved AEB and could see future budget reductions. We await DfE announcements Budget secured until July21 Providers are struggling to keep to delivery plans due to COVID, regularly reviewing progress and in discussion with suppliers to keep plans realistic and achievable.	Director of Business & Skills	• TVCA Cabinet approves annual allocation • Monthly submissions by providers are monitored • Regular meetings with providers • Regular update to directors, Management Group & Cabinet •AEB now in second year - full monitoring and management in place •Rapid response to COIVD, suppliers paid on profile (not delivery - to ensure their survival) •Ensuring future delivery is against robust agreed plans monitor new government programmes and continue dialog with DWP and DfE on impacts Continue to work for full devolution Regular reviews with suppliers are being held and a full review looking at actual delivery verses planned delivery due at RO4 (Dec 2020) at which point any re-profiling of costs will be made	4	2	8	-			Ongoing		Jan-21
C14	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed. (REPUTATIONAL)	• Confusion is possible in terms of relations with partners, businesses and residents • Reputational damage	Group Marketing and Communications Manager	• Communications plan in place • Regular liaison with Mayor's office on Comms issues & opportunities • Communications Strategy agreed •Working with SBC and other Local Authorities to promote the Mayoral election to drive up voter registration and awareness •A marketing agency to augment and support this work could be appointed for the 2021 election	3	3	9	-				• Communications plan in place• Regular liaison with Mayor's office on Comms issues & opportunities• Communications Strategy agreed •Working with SBC and other Local Authorities to look at opportunities to raise awareness of the mayoral election to drive up voter registration and awareness •A marketing agency to augment and support this work could be appointed for the 2021 election	Jan-21

C15	Senior Officers leave the organisation. (DELIVERY)	• Insufficient senior resource to lead and manage the workload over a critical period • Delays to delivery of Investment Programme • Risk of not delivering against SEP targets and outcomes • Loss of confidence by Government funding departments • Resource not available to lead on funding bids • Reputational damage • Reduction in TVCA team morale	Chief Executive	• Regular SLT meetings • Regular management one to ones •Director of Finance & Resources appointed • Director Business & Skills appointed	2	4	8	-				The Cabinet have received a full update on the proposals for TVCA Group arrangements including senior management intention to review the capacity and capability required to service the Group going forward. This is schedule dot be delivered by the end of the financial year 2020/21. The senior management team has been strengthened further by the appointment of a Group Chief legal officer – Peter Judge who is also the statutory Monitoring Officer for TVCA Group.	Mar-21
C16	Failure to agree a Local Industrial Strategy with Government. (REPUTATIONAL)	• Failure or delay causes reputational damage • Potential impact on ability to bid for national funding • Potential impact on regeneration of STDC site • Potential impact on SEP delivery as a consequence	Group Chief Executive	• Detailed timetable in place for the Local Industrial Strategy is being undertaken • Partners to support development of Local Industrial Strategy identified • Engagement events held with key sectors in Jan19 • Thematic engagement events Feb19 • Workshops with LEP and Leaders May19 •Ongoing dialogue with Government on final draft with a view to publish before the national Budget.	4	3	12			Deliver TVCA Group monthly Performance Management reviews with Executive Team. LIS progress being tracked by Executive Team.		The Tees Valley LIS hasn't yet been signed off by Government. Discussions with Government are to be revisited in the light of Covid 19, ensuring the LIS supports recovery and longer-term resilience. The Devolution & Recovery White Paper which was expected September 2020, but is currently delayed, may clarify the future position/actions required.	Jan-21
C17	Failure to operate within TVCA constitution. (LEGAL)	• TVCA decisions are ultra vires • Risk of legal challenge, leading to delay to delivery of TVCA programme(s) and costs • Reputational damage	Group Chief Executive/ Monitoring Officer	• Updates and reports to TVCA Cabinet • Briefing and engagement with Constituent Authorities' members • Public Consultation undertaken • A&G Committee in place and meeting regularly • O&S Committee in place and meeting regularly • Additional independent members recruited to A&G Committee • Involvement of Monitoring Officer at Cabinet and in review of papers/decisions • Legal & Commercial Manager has left TVCA	5	1	5	-				Temporary legal support in place. Directors reviewing legal capacity requirements for TVCA and associated group. Recruitment of new Head of Legal under way July 2020 - now appointed and in place (Peter Judge).	Mar-21
C18	Failure to maximise influence at regional/national level. (REPUTATIONAL)	• Missed opportunities to influence national and regional agendas to benefit Tees Valley • Potential impact on ability to bid for and get additional funding • Potential impact on delivery of SEP	Chief Executive/Director of Business & Skills	• LEP Meetings • LEP Network representation • Mayoral role • Membership of Transport for the North • Membership of NP11 • Maintaining key relationships (see C09 above) • MCA network influencing Government Work through M9 mayors group Regualr meetings wiht key stake holders (DfT, DIT, BEIS, InnovateUK) and specialist commitees relavant to the Tees Valley (hydrogen, CCS etc) Present at relavanet events and engare wiht natioal consutancy companies t promote the Tees Valley	2	2	4	-					Jan-21
C19	Failure to operate DTVA successfully and turn around operation. (DELIVERY)	• Reputational damage • Increased financial liabilities (see C17) • Impact on economic growth potential	Chief Executive/Group Commercial Director	• Strategic partnership joint venture with Stobart Aviation • 5 year Business Plan agreed annually • Agreed governance arrangements • Monitoring & reporting to DTVAL & Goosepool Ltd Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny •Goosepool Executive Director overseeing TVCA investment		2	0	-				Covid 19 has significantly impacted TIAL operations. Amended business plan being prepared.	Nov-20

C20	More TVCA investment required for DTVAL than is foreseen in Business Plan. (FINANCIAL)	• Increased financial liabilities • Impact on other projects/programmes	Chief Executive/Group Finance & Resources Director	• Strategic partnership joint venture with Stobart Aviation • 5 year Business Plan agreed annually • Agreed governance arrangements including Executive Meetings • Monitoring & reporting to DTVAL & Goosepool ltd Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny • Goosepool Executive Director overseeing TVCA investment	4	2	8	-		• Review of TIAL Business Plan 2020-21 in light of the impact of Covid-19 • Business Plan shared and developed with Directors •Business Plan parameters remain as existing Business Case vallues approved by Cabinet •Development of Southside proposals to support overall Airport Business Plans		•Business Plan under review •Development of Southside proposals to complement overall Airport infrastructure and to provide additional returns to support the Business Plan - deal completing July 2020 (duly completed). Covid 19 plan for reopening airport agreed and operational late June 2020. Amended Business Plan being prepared The Airport Business Plan is due to be presented to November 2020 Cabinet. The impact of Covid-19 on the Airline industry and specifically Teesside International Airport is being considered and will be reported back once full activties have been reviewed.	Jan-21
C21	Pandemic Illness Outbreak - Impact on organisation	Potential consequences of widespread national disruption include: Prolonged closure of offices. High levels of staff absenteeism - including senior staff.	Chief Executive/Senior Leadrship Team	Existing Business Continuity Plans -including use of Microsoft Teams and secure tablets for all staff - were designed to address prolonged inaccessibiltiy of Cavendish House, facilliate prolonged periods of home-working and to manage absence of senior staff members and high levels of staff absenteeism. Weekly SLT meetings to manage organisaitonal impact of outbreak and to deploy/redeploy resources where required.	5	5	25	-	Outbreak of COVID-19	Regular liason with government. Adaptations to ways of working and office space to deliver a safe socially-distanced working environment once a return to Cavendish House becomes viable. Daily communication from senior leaders.	Ongoing	TVCA has operated entirely remotely since late March 2020. Business Contitnuity Plans have proved robust and effective and the impact of the disruption on the operation of the organisation has been minimised, with staff rapidly adapting to new ways of working. Covid 19 plan for reopening airport agreed and operational late June 2020.	Dec-20
C22	Pandemic Illness Outbreak: Impact on delivery	Widespread national disruption and economic impact inhibits organisational abilitly to deliver on key projects and outcomes	Chief Executive/Senior Leadrship Team	Response to current situation includes: Establishment of 24/7 Business Support Helpline. Launch of Buy Local Tees Valley website to connect local people with businesses and tradespeople that have remained open, or are operating differently, during the outbreak. Survey of 900 businesses to increase understanding of effects the pandemic and short, medium and long-term support required. Established project management process ensures progress of straregic projects.	5	5	25	-	Outbreak of COVID-19	Regular liasion with government. As we move towards the recovery phase, the Combined Authority is now developing approaches to support recovery and longer-term resilience of the Tees Valley economy and working with our partners to develop a package of targeted measures to help businesses impacted by the pandemic to recover quickly, to be resilient to future shocks and to help them grow.	Ongoing	Covid 19 plan for reopening airport agreed and operational late June 2020. Commissioned economic modelling work through VIVID to developed a economic model to understand effect specifically in the Tees Valley economy and to model the impact of any potential interventions Developing economic stimulus packages through VIVID work. Launch support for apprenticeships, SME's, Culture and have new funds coming on line for SME support in July. Planning for growth, secured funds to increase SME intervention rate for SME growth from 33% to 50%, Work up inward investment proposals to continue regeneration - especially around offshore wind energy, SSI, life science etc. Ensure the TV bid into all relevant government growth incentives	Dec-20

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 11

REPORT TO THE TEES VALLEY AUDIT AND GOVERNANCE COMMITTEE

19th NOVEMBER 2020

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

TREASURY MANAGEMENT MID YEAR REVIEW 2020/21

SUMMARY

This report informs Members of the mid-year performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by the Authority in March 2020.

RECOMMENDATIONS

It is recommended that the Audit & Governance Committee note the contents of the report.

INTRODUCTION

1. The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

2. The Authority's treasury management strategy for 2020/21 was approved at Cabinet meeting on 13th March 2020. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.

3. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Cabinet covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was also approved by full Cabinet at the 13th March 2020 meeting.

DETAIL

External Context

4. The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing

transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

5. The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

6. Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the ‘Eat Out to Help Out’ (EOHO) offer.

7. GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

8. The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England’s 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics’ preferred measure of Consumer Prices Index including owner occupiers' housing costs (CPIH) which includes owner-occupied housing was 0.5% y/y.

9. In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

10. The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is ‘moderately’ above the 2% average target, particularly given it has been below target for most of the last decade.

11. The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

12. Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

13. Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

14. At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

15. Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

16. After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

17. There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Local Context

18. The treasury management position on 30th September 2020 and the change in year is shown in Table 1 below.

Table 1: Treasury Management Summary

	31.3.20 Balance £m	**Movement £m**	**30.9.20 Balance £m**
Long-term borrowing	30.00	-0.86	29.14
Short-term borrowing	0.00	0.00	0
Total Borrowing	**30.00**	**-0.86**	**29.14**
Long-term investments	0.00	0.00	0.00
Short-term investments	0.00	0.00	0.00
Cash and cash equivalents	62.65	30.85	93.50
Total Investments	**62.65**	**30.85**	**93.50**
Net Investments	**32.65**	**31.71**	**64.36**

19. Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk

20. Due to grants being received from Government at the start of the financial year in full the level of investments has increased, this will reduce during the year as funding is expended.

Borrowing Update

21. The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. The consultation closed on 31st July 2020 with the announcement and implementation of the revised lending terms expected in the latter part of this calendar year or early next year.

22. At 30th June 2020 the Authority held £29.1m of loans, as part of its strategy for funding the capital programmes within the Investment Plan. Outstanding loans on 30th June are summarised in Table 2 below.

<u>Table 2: Borrowing Position</u>

	31.3.20 Balance £m	**Net Movement £m**	**30.9.20 Balance £m**	**30.9.20 Weighted Average Rate %**	**30.9.20 Weighted Average Maturity (years)**
Public Works Loan Board	30.00	-0.86	29.14	2.67	24.63
Total borrowing	**30.00**	**-0.86**	**29.14**	**2.67**	**24.63**

23. The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

24. The Authority has an increasing capital financing requirement due to the capital programme within the investment plan and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the Authority's borrowing need based on realistic projections, the Authority took out no further borrowing during the period April to September 2020.

Treasury Investment Activity

25. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances fluctuated due to timing differences between income and expenditure. The investment position at the end of September is shown in table 3 below.

Table 3: Treasury Investment Position

Counterparty	Amount	Start	Maturity
	£	**Date**	**Date**
Aberdeen City Council	5,000,000	11-May-20	08-Feb-21
Suffolk County Council	5,000,000	12-Jun-20	14-Dec-20
Blackrock	15,000,000	07-Dec-16	Money Market Fund
Aberdeen	15,000,000	06-Oct-16	Money Market Fund
Federated	15,000,000	06-Oct-16	Money Market Fund
Legal & General	15,000,000	06-Oct-16	Money Market Fund
Insight	15,000,000	07-Dec-16	Money Market Fund
DMO	8,500,000	30-Sep-20	05-Oct-20
	93,500,000		

26. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

27. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 4 below.

Table 4: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
30.09.2019	4.75	A+	66%	82	0.69
31.12.2019	4.30	AA-	100%	18	0.76
31.03.2020	4.30	AA-	92%	11	0.50
30.09.2020	4.15	AA-	81%	12	0.06
Similar LAs	4.12	AA-	60%	55	0.17
All LAs	4.16	AA-	64%	18	0.27

Non-Treasury Investments

28. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

29. The Authority can lend money to its subsidiaries, constituent Local Authorities and local businesses to support delivery of the Strategic Economic Plan and stimulate local economic growth. Loans are not issued by the Authority for purely financial return, they are provided if the proposal meets the priorities set out in the Investment Plan and related strategies. Loans may be given in order to comply with state aid regulations, or alternatively it may be that the applicant has the ability to repay the support via increased revenues as a result of the investment.

30. As at the end of September 2020 also held £85.5m of such investments in;
    - loans to subsidiaries £72.8m
    - loans to constituent local authorities £8.7m
    - loans to local businesses £4.0m

Compliance

31. The Group Director of Finance and Resources reports that all treasury management activities undertaken during complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 5

Table 5: Debt Limits (£m)

	Maximum in Year	30.9.20 Actual	2020/21 Operational Boundary	2020/21 Authorised Limit	Complied? Yes/No
Borrowing	30.00	29.14	122.90	147.48	Yes

32. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	Maximum in Year	30.9.20 Actual	2020/21 Limit	Complied? Yes/No
Any single organisation, except the UK Central Government	£10m	£11.9m	£15m per organisation	Yes
UK Central Government	£25m	£8.5m	Unlimited	Yes
Any group of organisations under the same ownership	£0	£0	£15m per organisation	Yes
Any group of pooled funds under the same management	£0	£0	£37.5m	Yes
Negotiable instruments held in a broker's nominee account	£0	£0	£37.4m	Yes
Foreign countries	£0	£0	£15m	Yes
Registered providers and registered social landlords	£0	£0	£37.5m	Yes
Unsecured investments with building societies	£0	£0	£15m	Yes

Loans to unrated corporates	£0	£0	£15m	Yes
Money Market Funds	£75m	£75m	£75m	Yes
Real estate investment trusts	£0	£0	£37.5m	Yes

33. The Authority measures and manages its exposures to treasury management risks using the following indicators.

34. Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing are set out in table 7 below.

Table 7: Borrowing Maturity

	30.9.120 Actual	**Upper Limit**	**Lower Limit**	**Complied?**
Under 12 months	0%	25%	0%	Yes
12 months and within 24 months	0%	40%	0%	Yes
24 months and within 5 years	0%	60%	0%	Yes
5 years and within 10 years	0%	80%	0%	Yes
10 years and above	100%	100%	0%	Yes

35. Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 8: Long Term Investments

	2020/21	**2021/22**	**2022/23**
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£60m	£40m	£20m
Complied?	Yes	Yes	Yes

Outlook for the remainder of 2019/20

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

36. The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, coronavirus has not been supressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

37. The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Q3.

38. However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

39. This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have priced in a chance of negative Bank Rate.

40. Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

41. Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

42. Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

43. Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

FINANCIAL IMPLICATIONS

44. None

LEGAL IMPLICATIONS

45. None

CONSULTATION & COMMUNICATION

46. None

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AGENDA ITEM 11

REPORT TO THE TEES VALLEY AUDIT AND GOVERNANCE COMMITTEE

19th NOVEMBER 2020

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

TREASURY MANAGEMENT OUTTURN REPORT 2019/20

SUMMARY

This report informs Members of the 2019/20 performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by the Authority in March 2019.

RECOMMENDATIONS

It is recommended that the Audit & Governance Committee note the contents of the report.

INTRODUCTION

1. The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

2. The Authority's treasury management strategy for 2019/20 was approved at Cabinet meeting on 15th March 2019. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.

3. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Cabinet covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was also approved by full Cabinet at the 15th March 2019 meeting.

DETAIL

External Context

4. The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

5. The headline rate of UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The International Labour Office (ILO) unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

6. GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%. Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

7. In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

8. The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

9. The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or

below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

10. Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touched its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

11. In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

12. After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

13. While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

14. Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

Local Context

15. The treasury management position on 31st March 2020 and the change during the year is shown in Table 1 below.

Table 1: Treasury Management Summary

	31.3.19 Balance £m	**Movement £m**	**30.3.20 Balance £m**
Long-term borrowing	0.00	30.00	30.00
Short-term borrowing	0.00	0.00	0.00
Total Borrowing	**0.00**	**30.00**	**30.00**
Long-term investments	0.00	0.00	0.00
Short-term investments	27.50	27.50	0.00
Cash and cash equivalents	1.66	60.99	62.65
Total Investments	**29.16**	**33.49**	**62.65**
Net Investments	**29.16**	**3.49**	**32.65**

16. During the year the Authority took out its first borrowing to support the 10-year investment plan programme, at the end of March this remained unspent accounting for the increase in funds invested.

17. On the advice of Arlingclose all investments were called back to be placed in accounts where the maturity was less than 35 days duration. This accounts for the movement between short term investments and cash and cash equivalents in the year.

Borrowing Update

18. On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

19. The Chancellor’s March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB’s future direction.

20. The consultation titled “Future Lending Terms” represents a frank, open and inclusive invitation, allowing key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in “debt for yield” activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery and regeneration.

21. The consultation closed on 31st July 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021/22

Borrowing Strategy

22. At 31st March 2020 the Authority held £30m of loans as part of its strategy for funding the capital programmes within the Investment Plan, this was the first borrowing taken out by the Authority. Outstanding loans on 31st March 2020 are summarised in Table 2 below.

Table 2: Borrowing Position

	31.3.19 Balance £m	**Net Movement £m**	**31.3.20 Balance £m**	**31.3.20 Weighted Average Rate %**	**31.3.20 Weighted Average Maturity (years)**
Public Works Loans Board	0	30.00	30.00	2.67	24.83
Total borrowing	**0**	**30.00**	**30.00**	**2.67**	**24.83**

23. The Authority’s chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority’s long-term plans change being a secondary objective.

24. The Authority has an increasing capital financing requirement due to the capital programme within the investment plan and an estimated borrowing requirement as

determined by the Liability Benchmark which also takes into account usable reserves and working capital.

Treasury Investment Activity

25. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances fluctuated due to timing differences between income and expenditure. The investment position at the end of March 2020 is shown in table 3 below.

Table 3: Treasury Investment Position

Counterparty	Amount	Start	Maturity
	£	Date	Date
Natwest SIBA	1,150,000	n/a	Call Account
Santander	7,500,000	12-Oct-16	19-Jun-20
Blackrock	5,000,000	07-Dec-16	Money Market Fund
Aberdeen	11,500,000	06-Oct-16	Money Market Fund
Federated	11,500,000	06-Oct-16	Money Market Fund
Legal & General	10,000,000	06-Oct-16	Money Market Fund
Insight	11,000,000	07-Dec-16	Money Market Fund
Redcar & Cleveland Council	5,000,000	23-Mar-20	13-Apr-20
	62,650,000		

26. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

27. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 4 below.

Table 4: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
31.03.2019	4.23	AA-	42%	52	0.79
30.06.2019	4.60	A+	100%	13	0.76
30.09.2019	4.75	A+	66%	82	0.69
31.12.2019	4.30	AA-	100%	18	0.76
31.03.2020	4.30	AA-	92%	11	0.50
Similar LAs	3.98	AA-	46%	44	1.02
All LAs	4.03	AA-	56%	20	1.23

28. In the relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. Volatility measured by the VIX index was almost as high as during the global financial crisis of 2008/9 and evidenced in plummeting equity prices and the widening of corporate bond spreads, very close to rivalling those twelve years ago. Gilt yields fell but credit spreads widened markedly reflecting the sharp deterioration in economic and credit conditions associated with a sudden stagnation in economies, so corporate bonds yields (comprised of the gilt yield plus the credit spread) rose and prices therefore fell.

Non-Treasury Investments

29. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

30. The Authority can lend money to its subsidiaries, constituent Local Authorities and local businesses to support delivery of the Strategic Economic Plan and stimulate local economic growth. Loans are not issued by the Authority for purely financial return, they are provided if the proposal meets the priorities set out in the Investment Plan and related strategies. Loans may be given in order to comply with state aid

regulations, or alternatively it may be that the applicant has the ability to repay the support via increased revenues as a result of the investment.

31. As at the end of March 2020 also held £80.5m of such investments in;
    - loans to subsidiaries £67.8m
    - loans to constituent local authorities £8.7m
    - loans to local businesses £4.0m

Compliance

32. The Group Director of Finance and Resources reports that all treasury management activities undertaken during complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 5 below.

Table 5: Debt Limits

	Maximum in Year	**31.3.20 Actual**	**2019/20 Operational Boundary**	**2019/20 Authorised Limit**	**Complied? Yes/No**
Borrowing	£30m	£30m	£77.51m	£81.38	Yes

33. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	Maximum in Year	**31.3.20 Actual**	**2019/20 Limit**	**Complied? Yes/No**
Any single organisation, except the UK Central Government	£14.75m	£14.75m	£15m per organisation	Yes
UK Central Government	£0	£0	Unlimited	Yes
Any group of organisations under the same ownership	£0	£0	£15m per organisation	Yes
Any group of pooled funds under the same management	£0	£0	£37.5m	Yes

Negotiable instruments held in a broker's nominee account	£0	£0	£37.5m	Yes
Foreign countries	£0	£0	£15m	Yes
Registered providers and registered social landlords	£0	£0	£37.5m	Yes
Unsecured investments with building societies	£0	£0	£15m	Yes
Loans to unrated corporates	£0	£0	£15m	Yes
Money Market Funds	£68m	£49m	£75m	Yes
Real estate investment trusts	£0	£0	£37.5m	Yes

34. The Authority measures and manages its exposures to treasury management risks using the following indicators.

35. Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing are set out in table 7 below.

<u>Table 7: Borrowing Maturity</u>

	31.3.20 Actual	**Upper Limit**	**Lower Limit**	**Complied?**
Under 12 months	0%	100%	0%	Yes
12 months and within 24 months	0%	100%	0%	Yes
24 months and within 5 years	0%	100%	0%	Yes
5 years and within 10 years	0%	100%	0%	Yes
10 years and above	100%	100%	0%	Yes

36. Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

Table 8: Long Term Investments

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£15m	£10m	£5m
Complied?	Yes	Yes	Yes

FINANCIAL IMPLICATIONS

37. None

LEGAL IMPLICATIONS

38. None

CONSULTATION & COMMUNICATION

39. None

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Tees Valley Combined Authority

Internal Audit Progress Report

19 November 2020

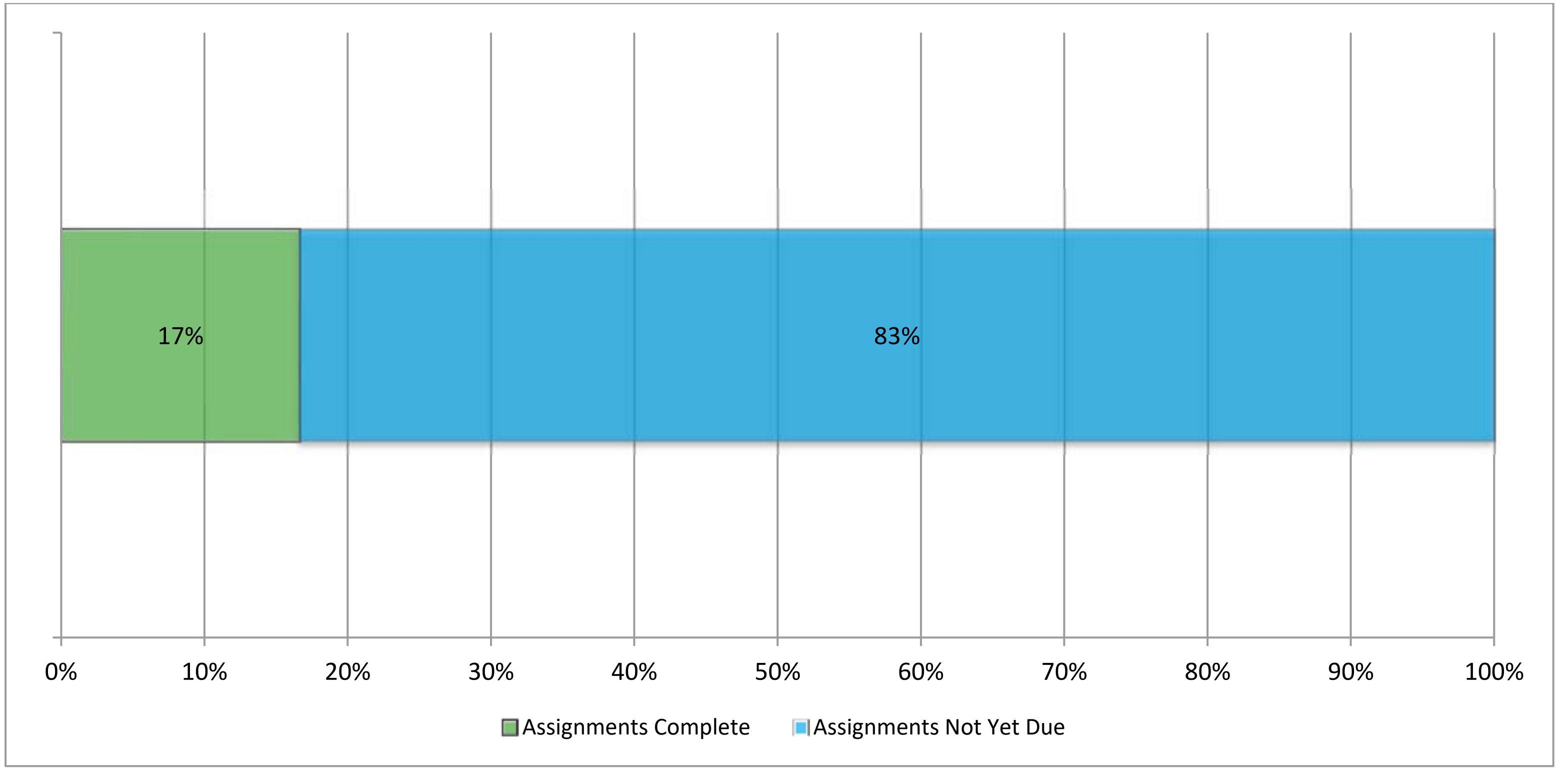
RSM

Contents

1 Introduction

The internal audit plan for 2020/21 was approved by the Audit and Governance Committee on 21 July 2020.

The graphic below provides a summary update on progress against the 2020/21 plan.



2 Reports

2.1 Summary of final reports being presented to this committee

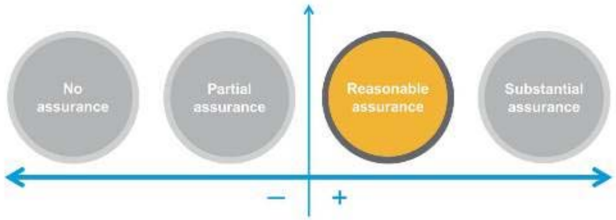
We have finalised two reports since the previous meeting and these are detailed below:

Assignment	Actions agreed		
	L	M	H
Directorate: Risk Management	3	4	0

Objective of the review:

The Authority has an adequate and effective process in place to identify and manage risks at a directorate level that could impact on the achievement of the Authority's strategic objectives (contained in TVCA's Strategic Economic Plan and Investment Plan).

Overall assurance rating and management actions:



An overall assurance rating of **reasonable assurance** has been given for this review. We have raised **four medium** and **three low** priority management actions. The medium management actions are summarised below:

- Our review highlighted that risk leads are provided with limited guidance on completing the risk register template. Consequently, through testing a sample of 20 risks from the four directorate risk registers in place, we found the risk template had been inconsistently interpreted and completed across directorates.
- Through discussions with directorate risk leads where the risk registers have been completed, we confirmed reviews are undertaken weekly. However, in two cases we found meetings to review the directorate risk register were not minuted.
- Through discussions with the Group Risk Manager we noted a formal process has not been established to document and ensure the review of directorate risk registers ahead of each Performance Management Group meeting.
- Our review highlighted the organisation are yet to establish a process to formally assess and challenge the level of assurance received in relation to mitigating controls and management of risk.

Assignment	Actions agreed		
	L	M	H

Context:

This review focussed on how the risk management framework is embedded within directorates of Tees Valley Combined Authority and considered how directorate risks are identified, monitored and escalated through to strategic risks, where necessary. At the time of our audit four directorate risk registers were in place and the directorate risk register for Communication and Marketing was in the process of being developed.

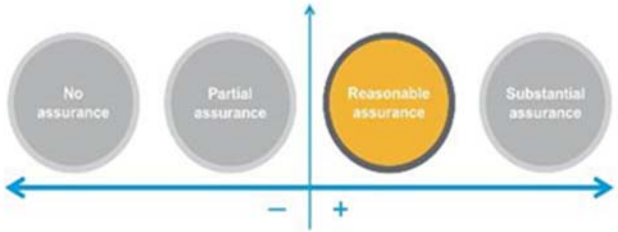
Directorate risk registers are reviewed routinely within directorates and monthly at the Group Performance Management meetings. As part of our review we conducted interviews with the five directorate risk leads to gain an insight and to ascertain whether the risk management process in place at directorate level is adequate and effective.

Assignment	Actions agreed		
	L	M	H
Group Strategic: Procurement	6	4	0

Objective of the review:

Expenditure committed is in accordance with the Group’s Financial Regulations, Government Procurement Regulations (2015) and OJEU processes.

Overall assurance rating and management actions:



An overall assurance rating of **reasonable assurance** has been given for this review. We have raised **four medium** and **six low** priority management actions. The medium management are summarised below:

- The Group acknowledged that currently it does not have specific entity procurement policies in place that clearly set out how the Group and its entities procure goods, services and supplies.
- Our testing of 20 contracts awards found that in one instance the Contract Justification Form had not been approved in line with the appropriate delegated approvals and in a further two instances the document had not been dated by the one or more of the approving directors.
- Our testing of 20 contract awards found that in two instances the Award of Contract Form had either not been fully completed or signed off by all required directors. Furthermore, we found a further two instances in which either one or both directors had failed to date the form. We were advised that these were old items and that approval / the AoC form may have been saved locally rather than centrally. This was to be provided but, to date we have not seen this evidence.
- We identified that no formal reporting was currently conducted for procurement activity across the Group. This included reporting on key supplier dependencies, contract extensions or expenditure outside the policy.

Assignment	Actions agreed		
	L	M	H

Context:

The Group is comprised of a number of different entities those being the Tees Valley Combined Authority (TVCA), South Tees Development Corporation (STDC), and Teesside International Airport Limited (TIAL). At the time of the audit, the South Tees Site Company (STSC) was not part of the group but it has subsequently become a 100% subsidiary of the STDC. Each entity is responsible for different business functions.

Our review focused on the different services, works and supplies that were procured by TVCA and STDC. These works varied from land and buildings through to consultancy, recruitment requirements and procurement of essential supplies. Each entity has a full time Procurement lead (which in this report we call 'Procurement Manager', albeit job titles differ slightly across the organisations), who, with the support of the Procurement Officers, manage procurement. Although procurement is managed separately, each entity is currently governed by the same procurement rules, namely those Contract Procedure Rules contained within TVCA's Constitution; however, there is separate set of delegated approvals for purchases in line with each entity's governance structure.

The Authority has developed a Group Procurement Strategy that covers all entities, which sets out high-level principles that seek to guide the direction of travel in respect of procurement going forward. As part of this process, the Authority is developing a phased implementation plan, which will incorporate the development of entity specific policies and procedural notes, as well as identifying any nuances between entity procurement processes. This was acknowledged within our review, but the focus and testing performed was against existing rules set out within the Constitution.

Appendix A – Progress against the internal audit plan 2020/21

The current Covid-19 situation means that our clients and internal audit are working differently. We understand and recognise the organisation's strategic / primary objectives, and that the developments around Covid-19 will continue to impact on all areas of the organisation's risk profile. We will work closely with management to deliver an internal audit programme which remains flexible and agile to ensure it meets your needs in the current circumstances. We will revisit the internal audit priorities in November / December with the Group Director of Finance and Resources to confirm the areas of coverage are appropriate.

Assignment	Status	Proposed Audit and Governance Committee
Goosepool – Financial Controls	Fieldwork completed week commencing 19 October 2020, audit closing meeting scheduled for 22 October 2020	February 2021
Project / Programme Activity	Fieldwork in progress week commencing 19 October 2020, audit closing meeting scheduled for 23 October 2020	February 2021
Governance	Fieldwork scheduled to take place week commencing 7 December 2020	February 2021
HR: Recruitment and Selection	Fieldwork scheduled to take place week commencing 18 January 2021	June 2021
South Tees Site Company	Fieldwork scheduled to take place week commencing 1 Feburary 2021	June 2021
Project Management Assurance	Fieldwork scheduled to take place week commencing 22 February 2021	June 2021
Follow Up of Previous Internal Audit Management Actions	Fieldwork scheduled to take place week commencing 1 March 2021	June 2021

Appendix B - Key performance indicators (KPIs)

Delivery			Quality		
	Target	Actual		Target	Actual
Draft reports issued within 10 days of debrief meeting	10 days	*7 days (average)*	Conformance with PSIAS and IIA Standards	Yes	*Yes*
			Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	*As and when required*
Final report issued within 3 days of management response	3 days	*1 day (average)*	Response time for all general enquiries for assistance	2 working days	*2 working days (average)*
			Response for emergencies and potential fraud	1 working day	-

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TEES VALLEY COMBINED AUTHORITY

Directorate: Risk Management

Internal audit report 1.20/21

FINAL

23 October 2020

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by you, we have been able to sample test.

Why we completed this audit

This review focussed on how the risk management framework is embedded within directorates of Tees Valley Combined Authority and considered how directorate risks are identified, monitored and escalated through to strategic risks, where necessary. At the time of our audit four directorate risk registers were in place and the directorate risk register for Communication and Marketing was in the process of being developed. The diagram below outlines the directorate risk registers and the assigned directorate risk lead:

Directorate risk registers are reviewed routinely within directorates and monthly at the Group Performance Management meetings. This meeting is attended by the above directors and the Chief Executive to whom the Managers of Strategy and Policy and Communication and Marketing directly report to. As part of our review we conducted interviews with the five-directorate risk leads to gain an insight and to ascertain whether the risk management process in place at directorate level is adequate and effective.

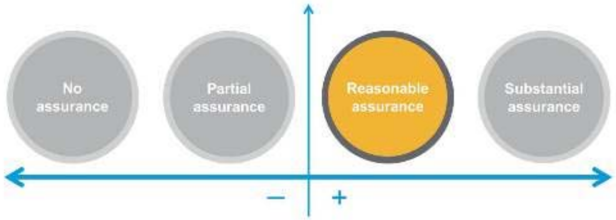
Conclusion

Our review identified that a risk management framework was revised in May 2020 and this is being implemented. We noted that a Directorate Risk Register template is in place and this has been currently completed by four directorates. However, due to the limited guidance provided to directorate risk leads, our review identified inconsistencies across directorates. We also identified areas for improvement relating to documenting the monthly directorate level reviews and the assurances sought. As a result of our review, we have raised a total of six management actions, which are comprised of **four medium** and **three low** priority actions.

Internal audit opinion:

Taking account of the issues identified, the Cabinet can take **reasonable assurance** that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area.



Key findings

We identified the following findings that have resulted in a medium action being raised:

The directorate risk register template comprised the risk management framework. However, our review highlighted that risk leads are provided very limited guidance on completing the template. Consequently, through testing a sample of 20 risks from the four directorate risk registers in place, we found the risk template had been inconsistently interpreted and completed across directorates. Consequently, there is a risk that the risk management process and completion of risk registers is ineffectively embedded and managed across directorates. **(Medium)**

Through discussions with directorate risk leads where the risk registers have been completed, we confirmed reviews are undertaken weekly. At two directorates a deeper dive review was either undertaken or planned to be undertaken on a monthly basis. However, in two cases we found meetings to review the directorate risk register were not minuted. Thus, there is a risk of reduced traceability, regarding the updates made and risk discussed. **(Medium)**

Through discussions with the Group Risk Manager we noted a formal process has not been established to document and ensure the review of directorate risk registers ahead of each Performance Management Group meeting. This includes reviewing the progress of the implementation of mitigating actions against deadlines. Thus, there is a risk that mitigating actions are not implemented in a timely manner. **(Medium)**

Our review also highlighted the organisation are yet to establish a process to formally assess and challenge the level of assurance received in relation to mitigating controls and management of risk. Therefore, where the assurances provided are not assessed there is a risk that gaps in assurances for mitigating controls in place are not identified. **(Medium)**

Our audit review also identified that the following controls are suitably designed, consistently applied and are operating effectively:

- Through interviews with the directorate risk leads we noted weekly directorate team and management meetings provide an opportunity for risks to be identified and reviewed at all levels.
- The Authority has in place a revised risk management framework which includes a scoring matrix and outlines how the Authority's risk management approach will incorporate the ISO Standard. Our review confirmed this was approved by the Audit and Governance Committee in May 2020.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Directorate Risk Management			
Control 1	The Authority has in place a risk management framework which is approved by the Audit and Governance Committee. The framework is reviewed on an annual basis.	**Assessment:** **Design** **Compliance**	 ✓ ×
Findings / Implications	Through review we confirmed the risk management framework details the following: • The roles and responsibilities of all staff; • How the Authority's risk management approach will incorporate the ISO standard; • The risk management process including identifying, scoring, treating and monitoring risk; • The 5 x 5 matrix used to score risk based on probability and impact to ensure consistency of assessment across the Group; and; • Definition and approval process of risk appetite. We also noted the appendices of the framework include the Template Director Risk Register and Risk Appetite Statement. Review of the Risk Appetite Statement confirmed the Authority have adopted the 13 generic public sector risks from the HM Government's Orange Book. Each risk category is assigned a risk threshold and one of the following risk appetite categories: • Minimalist; • Cautious and; • Open. As stated in the framework, the risk appetite is approved annually at the Cabinet at the Combined Authority annual meeting. Through review of the Directorate Risk Register Template we noted the template includes the risk scoring 5 x 5 matrix, thus ensuring risks are assessed consistently across directorates. However, we also noted that the template does not define the different sections of the directorate risk register. Review of meeting minutes confirmed the revised risk management framework was reported to the Audit and Governance Committee and subsequently approved on 28 May 2020. Where guidance on how to complete the sections of the risk register is not provided, there is a risk that directorate risk registers are not consistently and correctly completed.		

Management Action 1	The Authority will provide directorate risk leads further guidance and training on the risk management process and how to complete the directorate risk register. Training will include ensuring the following: • documenting on the register the risk mitigated or managed; and • a consistent understanding of the different sections on the directorate risk register.	**Responsible Owner:** Group Risk Manager	**Date:** 31 December 2020	**Priority:** **Medium**

Directorate Risk Management		
Control 2	As outlined in the risk management framework directorate risk leads are responsible for the following: • Ownership and production of the directorate level risk register; • Ensuring the directorate risk register is reviewed routinely at Directorate Management and Team meetings; • Ensuring the coordination of activities such as risk register assessments and reporting are complete; • Ensuring individual Cabinet reports contain adequate item specific analysis and commentary on risk; and • Championing risk management with their directorates and appropriate risk management practice by staff, volunteers, contractors and service providers.	**Assessment:** **Design** ✓ **Compliance** ×
Findings / Implications	Discussions with the risk leads for the following directorates: • Business and Skills; • Finance and Resources; • Commercial and Delivery; and • Strategy and Policy. Confirmed directorate risk leads are aware of their roles and responsibilities as outlined in the risk management framework. The Manager of Communications and Marketing was appointed two weeks ago. Therefore, the directorate risk register is yet to be completed and the risk management process embedded. However, through discussions with the Communications and Marketing Manager, we noted that they have not been made aware of the risk management framework. Where directorate risk leads are not made aware of the risk management framework in place, there is a risk that they are unaware of the formal risk management process in place and their roles and responsibilities within this.	

Management Action 2	The revised framework will be completed by end of November 2020 and will then be communicated to all staff for review prior to workshops.	**Responsible Owner:** Group Risk Manager	**Date:** 31 December 2020	**Priority:** Low

Directorate Risk Management		
Control 3	Directorate risk leads are responsible for maintaining, monitoring and updating the directorate risk register. This occurs regularly and more formally on a monthly basis.	**Assessment:** **Design** ✓ **Compliance** ×
Findings / Implications	The revised risk management framework states risks are to be reviewed on a monthly basis by the directors. The Director of Commercial and Delivery confirmed monthly management team meeting are held to provide an opportunity for the directorate to conduct a deep dive review of risk and update the directorate risk register. We obtained the minutes from the monthly management team meeting dated 28 September 2020 to confirm the directorate risk register was reviewed and updated. The minutes also include an action log for each team within the directorate, listing the actions, action owners, timeframes and status of completion. The Director Business and Skills confirmed they are also hoping to begin conducting monthly deep dives to ensure the directorate risk register is routinely reviewed in greater detail. Review of minutes from the management meeting dated 7 October 2020 confirmed extended meetings will take place on a monthly basis to focus on the directorate risk register and updates. Thus, our review confirms that plans are in place to begin formally reviewing the risk register to ensure the register is up to date as per the framework. The Finance and Resource risk register is updated on a weekly basis at the management meetings. Review of the standard agenda in place confirms risk register updates are reviewed as part of the director updates of the agenda. The Group Director of Finance and Resource's Personal Assistant confirmed the management meetings are not minuted, however actions are documented. Our review of the action log did confirm the risk registers were reviewed and updated. Through discussions with the Strategy and Policy Manager we confirmed the risk register is updated on a weekly basis during team meetings. The Strategy and Policy Manager then reports updates to the Chief Executive twice a week. However, the Strategy and Policy Manager confirmed that the team meetings and meetings with the Chief Executive are not minuted. For the four directorate risk registers reviewed, we obtained evidence to confirm the previous versions of the risk register is retained, thus it is evident the registers are maintained and updated. However, in the two cases where the monthly review of the directorate risk register is not minuted there is a risk of reduced traceability regarding when or whether the monthly review had taken place and the items discussed. Through review of the four directorate risk registers we noted that the register does not have a section for detailing the risk identified. Where the risk being managed or mitigated is not outlined, there is a risk that the risk tolerance recorded on the register does not align with the approved risk appetite.	

Our review also highlighted the following risk registers included risks that had not been assigned a review date:

- Business and Skills;
- Commercial and Delivery; and
- Finance and Resources.

Furthermore the following risk registers included review dates assigned to risks which had passed:

- Commercial and Delivery;
- Business and Skills; and
- Strategy and Policy.

Where risks are not assigned review dates or the date is not updated, there is a risk that risks are not reviewed as required.

Through discussions with the directorate risk leads we did note that the interpretation of the directorate risk register varied. For instance, the definition of 'current risk assessment' and 'deadline' was not consistent. Review of the directorate risk register Template highlighted that besides the 5 x 5 scoring matrix, no further guidance is provided to ensure directorate risk leads consistently understand the different sections of the template.

Additionally, through discussions with the newly appointed Communications and Marketing Manager we confirmed the directorate risk register is yet to be completed and the process implemented. However, no further guidance or training has been provided.

Where further guidance and training is not provided, directorate risk leads may not possess a level understanding of the risk management process and framework in place. Consequently, there is a risk that the risk management process and completion of risk registers is inconsistent across directorates.

Management Action 3	Updates to actions from the monthly review of directorate risk registers will be documented by risk owners. Any changes to the risk description or assessment should be made by the Risk Management Team, to ensure consistency in reporting and standards.	**Responsible Owner:** Group Director of Finance and Resources	**Date:** 31 December 2020	**Priority:** **Medium**

Directorate Risk Management			
Control 4	All directorate level risks documented in the directorate risk register are linked to the Authority's strategic themes as contained in TVCA's Strategic Economic Plan and Investment Plan.	**Assessment:** **Design** **Compliance**	 ✓ ×

Findings / Implications	The template directorate risk register includes a section for recording the TVCA strategic theme which the risk relates to. We tested a sample of 20 risks from the following directorate risk registers: • Business and Skills; • Commercial and Delivery; • Strategy and Policy; and • Finance and Resources. Our testing confirmed in 18 cases the risk was linked to the Authority's strategic themes. In the two cases the 'TVCA Theme' section had not been completed in the Commercial and Delivery Risk Register. As the risk is not outlined in the risk register, we cannot confirm if the risk has been mapped to a TVCA theme. As identified in the above, by providing more detailed guidance and training to directorate risk leads on completing the directorate risk register, registers will be consistently and correctly completed across directorates. Where directorate risk registers are not correctly and consistently completed across directorates there is a risk that risks are not managed effectively.			
Management Action	See management action 1	**Responsible Owner:** -	**Date:** -	**Priority:** -

Directorate Risk Management		
Control 5	All directorate level risks are scored using a 5 x 5 matrix based on impact and probability, approved by the Audit and Governance Committee as part of the risk management framework. Horizon scanning for opportunities is undertaken as part of the risk management process.	**Assessment:** **Design** ✓ **Compliance** ×
Findings / Implications	The revised risk management framework provides guidance on how to evaluate risk using the 5 x 5 scoring matrix. The framework also includes examples of risk impacts related to legal, health and safety, delivery, reputation and financial. Our review of the directorate risk register and discussions with the Group Risk Manager confirmed that the registers include a section titled 'current risk assessment'. This section documents residual risk assessed using the approved 5 x 5 matrix. Testing a sample of five risks selected from each of the four directorate risk registers confirmed in 18 cases the risk was scored using a 5 x 5 matrix based on impact and probability. In one case the risk score was not documented and in the remaining one case the impact and probability score was not documented. These two exceptions relate to the Business and Skills risk register. Where the scoring matrix is not used and completely documented in the risk register there is a risk that risks are not consistently assessed leading to inadequate control measures being put in place to manage or mitigate the risk.	

	Discussions with the directorate risk leads of the above directorates confirmed due to the political nature of the organisation, horizon scanning does take place on an ongoing basis. Opportunities are identified from a variety of sources such as: • Government clients; • Other authorities; • New funding initiatives • Economic modelling; and • External specialists. Discussions with the directorate risk leads confirmed horizon scanning is crucial, and ongoing. Thus, horizon scanning is built into conversations and will be undertaken as part of the risk management process. This includes undertaking horizon scanning at weekly directorate team meetings and the monthly Group Performance Management meetings. Through our review we have noted that plans are in place to ensure Group Performance Management meetings are minuted to document horizon scanning undertaken. Where, this is not documented there is risk of reduced traceability regarding whether horizon scanning is undertaken to ensure that risks associated with opportunities are identified sufficiently in advance to allow appropriate action to be taken.			
Management Action 4	Business and Skills Proposal of risk scorings must be shared with the Risk Management Team prior to documentation on the risk register to ensure consistent review has taken place. Risk scores are not to be changed without the approval of risk owner and Group Risk Manager.	**Responsible Owner:** Group Director of Finance and Resources	**Date:** 31 December 2020	**Priority:** **Low**

Directorate Risk Management

Control 6	**Missing control** Monthly Group Performance Management meetings are attended by a senior member of the Risk Management Team who is able to provide independent scrutiny, assurance and challenge to directorate risk leads.	**Assessment:** **Design** **Compliance**	 × -
Findings / Implications	Discussions with the Director of Business and Skills, Finance and Resources and Commercial and Delivery confirmed risks are identified within directorates through regular directorate team meetings. Risks are then routinely reviewed at directorate management meetings where the directorate risk register is updated. During directorate management meetings risks that need to be escalated to strategic risks will be identified. Alternatively, risks identified within Strategy and Policy are reported to the Chief Executive twice weekly. Risks are reported on and reviewed at the Group Performance Management meeting attended by the directors and the Chief Executive.		

	Through discussions with the Group Director of Finance and Resources we noted, the Group Performance Management meetings have been recently established. Thus, there is no terms of reference in place. Where a term of reference is not in place there is a risk that information reported is inconsistent and duties are not defined. We also noted that the Group Performance Management meeting is not attended by a senior member of the Risk Management Team who is able to provide independent oversight, scrutiny and challenge to directorate risk leads. Where independent scrutiny is not provided there is a risk, that risks are not sufficiently challenged prior to further escalation. The Group Director of Finance and Resources also confirmed that the Group Performance Management meetings have not been minuted in the past. However, following the new personal assistant structure recently put in place, the meeting will be minuted by the personal assistant team. We did obtain the agendas for the Group Performance Management meeting held 27 July 2020 and 1 September 2020. Though the agendas did not explicitly state the review directorate risk registers, discussions with the Director of Commercial and Delivery and the Group Director of Finance and Resources did confirm that the directorate risk register would be reviewed in the first part of the meeting. Directorates and the Chief Executive will identify, discuss and agree directorate risks that need to be escalated to strategic risk or to be cascaded. When deemed appropriate, the directorate risk is reported to the Audit and Governance Committee for escalation by the Group Director of Finance and Resources. Therefore, it is evident that there is a process in place and communication channels established for the escalation of directorate risks to strategic risk or cascade as necessary.

Management Action 5	The Authority will ensure a term of reference is established for the Group Performance Management team. The Authority will ensure the monthly Group Performance Management meetings are attended by a senior member who is able to provide independent scrutiny, assurance and challenge directorate risk leads.	**Responsible Owner:** Group Director of Finance and Resources	**Date:** 31 December 2020	**Priority:** **Low**

Directorate Risk Management			
Control 7	The directorate risk register documents the current controls in place to manage or mitigate risks and are assigned an officer. There is also a section on the register which details further mitigating actions required. Where further mitigating actions are identified, each is assigned a target deadline for the risk officer to have implemented these by.	**Assessment:** **Design** **Compliance**	 ✓ ×

Findings / Implications	The directorate risk register documents the residual risk in the 'current risk assessment' section of the risk register, target risk score and mitigating actions in the 'current controls' sections. Where the residual risk is above the target score, further mitigating actions will be identified. Mitigating actions currently in place are assigned an officer and where further mitigating actions are required, a deadline for completion is also assigned. Testing a sample of five risks from each of the four directorate risk registers confirmed in 19 cases the current mitigating actions were assigned an officer. However, in nine of these cases the mitigating control was assigned more than one officer. Where this is the case, there is a risk that the ownership of the mitigating control is unambiguous. In the remaining one case, the mitigating control documented in the Business and Skills Risk Register was not assigned an officer. Thus, there is a risk that the control in place is not actively monitored and the risk is not managed. In ten out of 20 cases, no further control required was identified. However, in four of these cases the residual score was above the target score. In two of the ten cases, a target score had not been identified. Thus, there is a risk that further controls are required however not identified as a target score has not been established and compared to the residual risk score. In the remaining ten cases further mitigating actions were identified and documented on the relevant directorate risk register. In all ten cases a deadline had been assigned for implementing the further controls required identified. However, we noted in two cases the deadline had passed.. In four cases the deadline was 'ongoing' or 'TBC'. Through discussions with the Strategy and Policy Manager we also noted the 'deadline' was interpreted as the deadline for the overall action rather than the deadline for the implementation of further controls identified. Thus, our testing and discussions highlight that due to the insufficient guidance provided in the directorate risk register template, interpretation of how to complete directorate risk registers is inconsistent across directorates. Consequently, where a deadline is not dated and documented there is a risk that progress against implementation of further controls required to monitor the risk are not managed effectively.			
Management Action 6	Directorate risk registers will be reviewed by risk leads and Risk Management Team to ensure that: • Mitigating actions will be assigned to one officer, and this will be recorded in the directorate risk register. • Target deadlines for the implementation of further controls required will be dated and documented on the directorate register to ensure progress can be monitored. • The target score of risks within the register will be documented and where residual risk is above this, further mitigating actions will be identified.	**Responsible Owner:** Group Risk Manager	**Date:** 31 March 2021	**Priority:** Medium

Directorate Risk Management				
Control 8	**Missing control** Assurances have been identified and are used to inform the risk management process. Mitigating controls in place are routinely monitored and reviewed within directorate to confirm effectiveness and to identify whether further controls are required. Assurance and scrutiny over the current controls and need for further controls is provided by a senior member outside the directorate.		**Assessment:** **Design** **Compliance**	 × -
Findings / Implications	Through discussions with the directorate risk leads of Business and Skills, Strategy and Policy and Commercial and Delivery, we established assurance are sought from the following sources: • One to ones with members of staff; • Directorate management meetings; • Monthly Group Performance Management meetings; and • Internal and external audit. Discussions with the Group Risk Manager confirmed there are plans in place to begin routine meetings with control owners to provide assurance over the mitigating controls in place. Although assurances are gained informally the organisation had not identified within the directorate risk register how it gains assurance that mitigating controls are in place and working effectively. Without assessing the level of assurance received in relation to mitigating controls and management of risks, the organisation may be relying on a source of assurance to help mitigate against a high risk when in reality it only provides a low level of assurance or the organisation may have over assurance on one priority against other priorities which have little assurance. There may also be gaps in assurance for the controls detailed within the risk register.			
Management Action 7	The Authority will establish a process to ensure that directorate risk registers are reviewed and challenged ahead of each Performance Management Group meeting, the review will cover the following areas: • Tracking and review of the implementation of mitigating actions; • Independent assurance over the current mitigating actions in place; and • The process of reviewing mitigating actions and the assurances provided.	**Responsible Owner:** Group Risk Manager	**Date:** 31 March 2021	**Priority:** Medium

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective[1]		Non Compliance with controls[1]		Agreed actions		
					Low	Medium	High
Directorate Risk Management	2	(9)	6 [2]	(9)	3	4	0
Total					**3**	**4**	**0**

[1] Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

[2] We have raised one management action that covers two controls.

APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

Objective of the area under review
The Authority has an adequate and effective process in place to identify and manage risks at a directorate level that could impact on the achievement of the Authority's strategic objectives (contained in TVCA's Strategic Economic Plan and Investment Plan).

The following areas will be considered as part of the review:

In 2019/2020 we reviewed the risk management arrangements of the Authority at a strategic level. This review will focus on the TVCA risk management framework, particularly in relation to directorate risk registers, and whether:

- The risk management framework is in place and has been regularly reviewed and approved.
- Directorate risk leads are aware of the risk management framework and their overall responsibilities.
- Arrangements are in place to identify, review and manage key directorate risks.
- Directorate-level risks are linked to the Authority's strategic objectives and are assessed in line with their potential impact on those objectives.
- Risks are assessed in accordance with an approved risk matrix to provide priority risks for reporting and mitigating action. This will also include 'horizon scanning' and how directorates ensure that risks are identified sufficiently in advance to allow appropriate action to be taken.
- Maintenance, monitoring and updating of directorate risk registers occurs on a regular and consistent basis.
- A process is in place for the escalation of directorate risks to strategic risks, or cascade as necessary.
- The controls to manage / mitigate risks have been documented and are clear in detail, assigned to nominated persons and a timescale for completion agreed.
- Assurances have been identified (as well as gaps in assurance) and are used to inform the risk management process.
- There is regular reporting of the directorate risk registers to senior management and how this informs decision making.

The following limitations apply to the scope of our work:

- Our review will focus on risk management processes within TVCA only and not within any of its subsidiary entities.
- We will not consider the arrangements in place for the identification and management of strategic risks.
- We will not confirm that all directorate risks have been identified.
- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review.
- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- We will not perform testing to confirm that any mitigating controls that have been identified and recorded on the risk register are actually in place. Similarly, we will not perform any testing to confirm that the sources of assurance that have been identified and recorded are actually in place.
- This review will not comment on whether individual risks are appropriately managed, or whether directorates have identified all of the risks and opportunities facing them.
- We will not comment on the scores assigned to individual risks, we will only consider whether a scoring mechanism is in place which is fit for purpose and has been consistently applied.
- We do not endorse a particular means of risk management.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held	9 October 2020	**Internal audit Contacts**	Rob Barnett, Head of Internal Audit
Draft report issued	15 October 2020		Philip Church, Client Manager
Responses received	23 October 2020		Mike Gibson, Assistant Manager
			Rajan Suman, Auditor
Final report issued	23 October 2020	**Client sponsor**	Gary MacDonald, Group Director of Finance and Resources
		Distribution	Gary MacDonald, Group Director of Finance and Resources

TEES VALLEY COMBINED AUTHORITY

Procurement

Internal audit report 2.20/21

Final

30 October 2020

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1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit / assignment and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by you, we have been able to sample test the control framework.

Why we completed this audit

An audit of procurement was undertaken at Tees Valley Combined Authority ('Authority') as part of the approved internal audit plan for 2020/21.

The Group is comprised of a number of different entities those being the Tees Valley Combined Authority (TVCA), South Tees Development Corporation (STDC), and Teesside International Airport Limited (TIAL). At the time of the audit, the South Tees Site Company (STSC) was not part of the group but it has subsequently become a 100% subsidiary of the STDC. Each entity is responsible for different business functions.

Our review focused on the different services, works and supplies that were procured by TVCA and STDC. These works varied from land and buildings through to consultancy, recruitment requirements and procurement of essential supplies. Each entity has a full time Procurement lead (which in this report we call 'Procurement Manager', albeit job titles differ slightly across the organisations), who, with the support of the Procurement Officers, manage procurement. Although procurement is managed separately, each entity is currently governed by the same procurement rules, namely those Contract Procedure Rules contained within TVCA's Constitution; however, there is separate set of delegated approvals for purchases in line with each entity's governance structure.

The Authority has developed a Group Procurement Strategy that covers all entities, which sets out high-level principles that seek to guide the direction of travel in respect of procurement going forward. As part of this process, the Authority is developing a phased implementation plan, which will incorporate the development of entity specific policies and procedural notes, as well as identifying any nuances between entity procurement processes. This was acknowledged within our review, but the focus and testing performed was against existing rules set out within the Constitution.

Conclusion

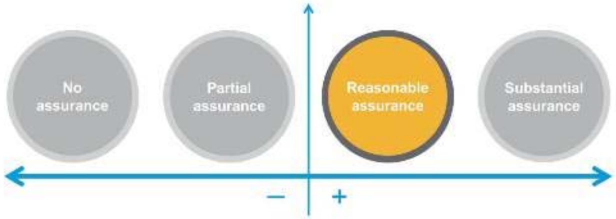
We found that TVCA and STDC are broadly following the same overall procurement framework, although there are a number of variations between the two entities. Our testing identified a number of instances where procedures were not operating fully effectively or had not been fully complied with, such as documentation not being fully completed or approved, or requirements including the publication of awards on Contracts Finder. We recognise that the Group is in the process of developing a phased implementation plan to manage the transition to working under the new Group Procurement Strategy. It is anticipated that the matters identified in this report will assist the Group in developing changes or additions (such as the inclusion of a formal procurement activity reporting structure) to its existing control framework.

As a result of our review we have raised a total of 10 management actions, which are comprised of **four medium priority** and **six low** priority actions. Details of these actions can be found under section two of this report.

Internal audit opinion:

Taking account of the issues identified, the Cabinet can take **reasonable assurance** that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area.



Key findings

We identified the following findings that have resulted in a medium action being raised:

The Group acknowledged that currently it does not have specific entity procurement policies in place that clearly set out how the Group and its entities procure goods, services and supplies, instead having a TVCA procurement process, with each entity employing slight variations. We note that the Group Procurement Strategy sets out the procurement direction and guiding principles, and the Contract Procedure Rules set out the general procurement process. However, we have recommended that this be codified into a series of distinct entity procurement policies that includes all the permutations in the procurement processes, relevant key responsibilities and is reflective of entity specific governance structures. **(Medium)**

Our testing of 20 contracts awards found that in one instance the Contract Justification Form had not been approved in line with the appropriate delegated approvals and in a further two instances the document had not been dated by the one or more of the approving directors. **(Medium)**

Our testing of 20 contract awards found that in two instances the Award of Contract Form had either not been fully completed or signed off by all required directors. Furthermore, we found a further two instances in which either one or both directors had failed to date the form. We were advised that these were old items and that approval / the AoC form may have been saved locally rather than centrally. This was to be provided but, to date we have not seen this evidence. **(Medium)**

We identified that no formal reporting was currently conducted for procurement activity across the Group. This included reporting on key supplier dependencies, contract extensions or expenditure outside the policy. **(Medium)**

For details of the **six low** priority management actions, please see section two of this report.

Our audit review also identified that the following controls are suitably designed, consistently applied and are operating effectively:

- Our testing of a sample of 20 contracts confirmed that in each case, the Group entity had either sought value for money through quotations, completed a tender process or completed a direct award in line with the framework the supplier had been selected from. In the cases where a direct award was granted there was sufficient explanation within the documentation to evidence how the entity had complied with the framework requirements.
- Our testing of sample of 20 contracts found that in eight instances the OJEU limit had been exceeded with four these applying the OJEU provisions under specific competitions and the remainder set in accordance with OJEU complaint frameworks. The remaining 12 contracts were under the OJEU relevant threshold. Testing confirmed that in each instance the Group had adhered to the OJEU contract procedure rules, including clearly laid out tenders, criteria, assessment as well as only bids provided prior to the deadline being considered for tender.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Procurement			
Control 1	**Missing control** The Group has a series of entity specific procurement procedures that align with the Group's Financial Regulations, Constitution and relevant statutory / regulatory requirements.	**Assessment:** **Design** **Compliance**	 × -
Findings / Implications	We identified that the Group currently has a Procurement Strategy in place, which was approved by the Audit and Governance Committee in May 2020 and ratified by Cabinet in July 2020. The purpose of the strategy was to clearly lay out the framework for committing spend and undertaking procurement activities throughout the Group. The development of the strategy was part of a wider review of how the Group procures goods and services in order to shape its procurement activities and processes going forward. Consequently, it was agreed that our testing would be focused on the existing procurement regime, including those procedures laid out in the TVCA Constitution. On review of the strategy, we found that the Group had laid out its strategic vision for procurement, including how they would seek to orientate themselves to improve areas such as social value, engagement with local suppliers, training and awareness, and managing conflicts of interest amongst other areas. The Authority is in the process of developing a phased Implementation Plan to support implementation of the Group's Procurement Strategy. This includes the development of entity-specific procurement policies and procedures which would reference how procurement is conducted specific to the various entities within the Group, including South Tees Development Corporation (STDC). Discussion with the Procurement Managers for TVCA and STDC revealed that all procurement activities would continue to be governed by the TVCA Constitution and overall Procurement Strategy. Currently, however, it identified that the Constitution and Contract Procurement Rules are TVCA specific, with no specific reference to STDC or how the procurement processes may differ amongst the entities. Instead, STDC follows the broad principles of the overall policy, with a number of variations where STDC's processes necessarily differ from those of TVCA. Overall, we recognised that the Group has plans to develop separate entity policies in line with their procurement plan. However, we have highlighted the need for these to be distinct documents containing all permutations distinct to each entity's procurement processes, and entity specific delegated authorities, and have formal authorisation / review timescales tailored to each entity's governance structures.		

	Failure to have entity-specific policies and related procedures could give rise to the risk of misunderstandings at an entity level over which process to follow.			
Management Action 1	The Group will finish developing and then deliver s Group Implementation Plan. As part of this work a group y Procurement Policy and Procedures will be developed and tailored toward each Group entity and will address each of the actions raised throughout this report. The Policy and relevant procedures will reference specific entity requirements including delegated approvals. This will be appropriately approved and examined by the Audit and Governance Committee of TVCA and Audit and Risk Committee of STDC and other Board and committees as appropriate . The policy(ies) and procures will be subject to a regular review process with a log for document control.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 30th June 2021	**Priority:** Medium

Area: Procurement		
Control 2	<u>**Partially missing control**</u> The Group have a series of procedural and process documents that underpin the Procurement Policy. These are widely available to all staff who may be involved in procurement activities.	**Assessment:** **Design** × **Compliance** -
Findings / Implications	The Procurement Managers for TVCA and STDC stated that core procurement procedures were outlined within the Contract Procedure Rules (CPRs) contained within the TVCA Constitution. The CPRs set out how the procurement process operates across TVCA, including: • Key responsibilities; • Steps prior to advertising; • Choice of procurement, thresholds and advertising requirements; • Quotation and tender procedures; • Acceptance of tender, quotations, frameworks bids; • The standstill period; and	

Area: Procurement				
	• Contract Award Notice. Overall, we found these rules to be a comprehensive guide to procurement activities that staff are required to follow; however, we identified issues relating to clarity and completeness. These were: • Due to the various procurement routes i.e. OJEU, framework, single tender or value for money etc, the documents lack of process flows meant it was not conducive to a clear understanding of which procurement activity applied to the relevant procurement route. • Furthermore, we found in our testing different nuances within procurement routes across the different entities such as the use of TVCA procurement frameworks. • The rules did not reference the use of key procurement documents used throughout the procurement process, for example the contract justification form or the direct awards form; • Other areas identified were that the TVCA rules did not reference the approval limits for the Legal and Commercial Manager and the Finance Director. Furthermore, the document did not directly detail the award and tender limits that require Cabinet approval. Without clearly laid out procedural notes, there is a risk that staff conducting or supporting procurement activities fail to follow the correct procedure, leading to purchasing levels not being properly controlled and approved in line with Group expectations.			
Management Action 2	The Group will consider developing a series of procurement work or process flows as part of its entity specific procedures to make it easier or staff to understand. . These may include but not be limited to: • All various permutations for procurement routes including applicable thresholds; • Approval limits for procurement purchases; • Key documentation applied to specific procurement routes; and • Key personnel and teams accountable for each procurement stage.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 30th June 2021	**Priority:** **Low**

Area: Procurement		
Control 3	**Partially missing control** The Group's Constitution clearly outlines the roles and responsibilities in relation to the procurement process. This includes delegated approvals, monitoring and procurement activities.	**Assessment:** **Design** × **Compliance** -
Findings / Implications	It was acknowledged that key roles and responsibilities were set out under section 7 of the Contract Procedure Rules within the TVCA Constitution. • Upon review of these roles and responsibilities, we identified under section 7 responsibilities had been set up covering the Chief Finance Officer, Monitoring Officer, Senior Managers as well as the personal responsibilities of all officers. Responsibilities ranged from: ➢ Administration of contract procedure rules; ➢ Ensuring the robustness of the procurement process including assessing procurement staff and consultant proficiency; ➢ Maintaining records for procurement activities; ➢ Having due regard to Group priorities for instance social value; and ➢ Personal responsibilities for example awareness of the Contract Procedure Rules or acting in accordance with the code of conduct. Furthermore, we found that responsibilities were embedded within the Contract Procurement Rules, for instance Senior Managers were required to show value for money for procurement below £15,001 or officers are required to notify the Chief Finance Officer of notices posted on the OJEU or Contracts Finder. Overall, we found that the responsibilities contained within the Contract Procedure Rules to be high level for certain roles such as the Director of Finance whom was responsible for 'development of implementation of the CPRs', no reference was made to their responsibility to approve activities in line with the delegated authority. For other responsibilities, we found that they lacked sufficient detail both in respect of roles and duties that may obfuscate accountability in a complex process, examples included 'officers' having responsibility for 'commissioning services' or 'keeping records of all procurements. From our review we were unclear of where responsibility sat and the specific nature of the responsibilities. This was reiterated by the Procurement Managers for TVCA and STDC, whom acknowledged that further detail would be required in the next phase of the procurement implementation plan. This was evidenced through review of the Procurement Strategy, which expanded upon key responsibilities for the Procurement Team and individual business areas. Without clearly laid out accountabilities, there is a risk that key responsibilities are not discharged, leading to procurement controls being overlooked or undermined.	

Area: Procurement				
Management Action 3	Management will ensure that detailed responsibilities are listed against specific entity procurement roles within the Procurement Policy and relevant entity procedures.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 30 June 2021	**Priority:** **Low**

Area: Procurement		
Control 4	Once there is a need for a service or works contract to be procured, if it is over £5,000, a Tees Valley Combined Authority (TVCA) Contract Justification Form is completed. This form is used to document the rationale for the procurement and the whether the purchase has been approved to initiate the next phase of the procurement process. Where a procurement is under £5,000, a Purchase Order Request Form must be completed. Once the form has been completed, it must be signed off by: • The Finance Director, associated Director or Legal and Governance Director to proceed to procurement for TVCA; and • The Finance Director and the Engineering Programme Director for STDC or Chief Executive Officer. At the date of the audit, if the contract value was anticipated to be under £250,000 for services or £1,000,000 for works Cabinet approval is required at both STDC and TVCA. An additional step was required at STDC whereby if the anticipated contract value is expected to be over £500,000 for services or over £3,000,000 for works, Cabinet approval is also required for award of contract.	**Assessment:** **Design** ✓ **Compliance** ×
Findings / Implications	For a sample of 20 contracts awarded at TVCA (10) and STDC (10) we identified the following: • A Contract Justification Form (CJF) was in place for each of the procured items; • In 14 of 20 instances, we identified that the CJF had been signed, dated and approved by the appropriate Group personnel as per CPRs and/or schemes of delegation; • a further two instances were identified as ‘low value’ and we confirmed that the purchase requisition forms were on-file as per the CPRs.	

Area: Procurement				

- four instances in which we found exceptions as follows:
    - 1006336 (STDC) had not been authorised by the Finance Director.
    - 1006398 (STDC) had not been dated by the Finance Director.
    - 1006388 (STDC) had not been dated by the Chief Executive Officer.
    - 2006238 (TVCA) had only been approved by the Finance Director.

  In respect of the three STDC items, we were informed that two were old items which pre-dated use of the CJF form, and that an audit trail was available to evidence authorisation of the third. However, these three items were all dated from May to July 2020 and a CJF form was present. These items should be reviewed to ensure they were appropriate for the business and properly authorised.

  In respect of the TVCA item, the Finance Director was the responsible officer for the procurement and that, in this regard, the approval was in line with both the SPRs and the Scheme of Delegation.

It was also noted that as part of the TVCA delegated approvals, that the combination of director approval was not clearly set out within the TVCA Constitution's Contract Procedure Rules (CPRs).

If the Contract Justification Form has not been correctly approved, it may lead to contracts being procured which have not been provided for within the approved budgets.

Management Action 4	The Group will issue a reminder to all staff in each entity to ensure that each Contract Justification Form has been completed and approved in line with the updated Procurement Policy and schemes of delegation. This will include checking the items identified during our fieldwork to ensure that they have been appropriately authorised and updating records appropriately.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 31 December 2020	**Priority:** **Low**

Area: Procurement		
Control 5	Once a decision has been made to award a contract the Authority completes an Award of Contract Notice and ensures that it is published in the OJEU Journal or Contracts Finder depending on the value of the contract. The Award of Contract notice includes any framework call off where applicable.	**Assessment:** **Design** ✓ **Compliance** ×
Findings / Implications	**Award of Contract** For a sample of 20 contracts awarded at TVCA and STDC we identified the following: • The Award of Contract (AoC) had been completed and authorised in line with the TVCA Constitution or the STDC scheme of delegation in 12 instances; • In three instances being considered as non-applicable due to their low value or contracts having been novated from STSC; • One further instance the AoC had been approved by the Finance Director only; however, this was permitted under the CPRs rule 5.2 which permitted bypassing of this authorisation process where following the procurement rules would be prejudicial to the Authority's interests. As this contract related to the emergency procurement of services owing to the ongoing Covid-19 pandemic, we considered this was in line with the Group's CPRs; • In four instances we identified the following: – 1006401 (STDC) – The AoC had not been fully completed and no sign off was present; – 1006336 (STDC) – The AoC had the signature of the Engineering and Programme Director only; and – 1005794 and 1006353 (STDC) – Had not been dated by either one or both of the required directors. We were advised that these were old items and that approval / the AoC form may have been saved locally rather than centrally. This was to be provided but, to date we have not seen this evidence. Without seeking the correct approval for the AoC, the Group risks procurement contracts being awarded without due consideration from the appropriate personnel, leading to unexpected procurement spending occurring. **Contracts Finders / OJEU Notices** For a sample of 20 contracts awarded at TVCA and STDC we identified 10 instances where the contracts had not been published on the Contracts Finder in contravention of rule 24.1 of the CPRs (eight STDC, two TVCA). In relation to the two TVCA items, the Procurement	

Area: Procurement				
	Co-ordinator confirmed that these should have been published. In respect of the eight STDC items, we were informed by the Procurement Officer that this was due to the purchase being procured off a framework; however, the CPRs made reference to publishing of contracts including 'where a contract is a call off'. Without posting all awards on the Contracts Finder, there is a risk that the Group does not demonstrate transparency in relation to procurement, which may lead to breaching of transparency rules and guidelines.			
Management Action 5	The Group will reiterate the requirement to all relevant staff that the Award of Contract forms are competed and approved in line with the updated Procurement Policy and schemes of delegation including confirmation of the correct procedures to be adopted in the case of urgency. This will include checking the items identified during our fieldwork to ensure that they have been appropriately authorised and updating the paperwork as appropriate. The Group will ensure that all notices are published on Contracts Finder as per the Contract Procedure Rules.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 31 December 2020	**Priority:** **Medium**
Management Action 6	The Group will perform a check on the existing contracts listed on the Contracts Finder that are above the CPRs limit to ensure that they have been appropriately authorised and signed off as per the delegated authorities.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 31 March 2021	**Priority:** **Medium**

Area: Procurement				
Control 6	All of the STDC contracts are reported on the TVCA contracts register which is published on the TVCA website.		**Assessment:** **Design** ✓ **Compliance** ×	
Findings / Implications	The existing contracts register was obtained, and from a review of a sample of 20 contracts we identified the following: • 10 contracts from our sample were listed on the contract registers; • Two were not listed due to their low value (£5,000) as advised by the Procurement Manager; and • For the remaining eight sample contracts (five TVCA, three STDC), we were unable to locate an entry on the contract register. We were advised that this may be because they were relatively new awards which had not yet been added to the contract register. Without the contracts register being kept up to date, there is a risk that contracts awarded are not logged and tracked, leading to ineffective contract management and overarching review by the Group.			
Management Action 7	The Group will perform a review of their existing contracts register to ensure it is complete, accurate and up to date in terms of contracts awarded across both STDC and TVCA.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 31 March 2021	**Priority:** **Low**
Management Action 8	Management will clarify the responsibilities in regard to updating of the central contracts register. A process will be established in which entities routinely report on any new contracts awarded and whether these need to be included on the central contracts register.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 31 March 2021	**Priority:** **Low**

Area: Procurement		
Control 7	**Missing control** Reporting on procurement activities is reported to an appropriate level within the Group and its associated entities on a periodic basis. Reporting includes but is not limited to: • Key supplier dependencies; • Expenditure outside of policy; • Risks associated with the delivery of or non-compliance with the Group strategic objectives; and • Contract extensions or 'scope creep' in relation to accumulated expenditure that may affect the Group's activities and re-assessment in line their Financial Regulations.	**Assessment:** **Design** × **Compliance** -
Findings / Implications	Through discussion with the Procurement Managers for TVCA and STDC, we identified that no formal reporting was conducted in relation to procurement activities including key supplier dependencies, expenditure outside the policy, risks affecting the delivery of or compliance with Group strategic objectives and contract extensions. Further discussion with each of the Procurement Teams identified that individual areas were being reported as part of the Contract Procedure Rules as opposed to a formal reporting structure. These included: • The Procurement Manager informed us that although no formal reporting was conducted in respect of contract extensions or newly awarded contracts, there were existing processes and controls that allowed Senior Management to review contracts if they chose. These were the internally available contracts registers that should reflect all contract extensions granted to contractors, and the fact that contract variations required Financial Director approval in the first instance, was indicated as evidence of reporting albeit on an informal basis. • All items of expenditure above £250,000 for services and suppliers and £1m for works require formal approval by the Group's Cabinet in order to go to tender; and • Both STDC and TVCA have risk registers which contain procurement related risks. How these affect the wider Group strategic plan are reported to the Audit and Governance Committee on a periodic basis; It was acknowledged that no analysis is performed related to identifying and reporting on key suppliers; but this was anticipated to be encompassed as part of the procurement plan going forward. Without reporting on procurement activity on a routine basis, there is a risk that the appropriate bodies are not kept abreast of emerging procurement trends that could lead to procurement problems manifesting, such as excessive spending or contract 'scope creep' that are not resolved in a timely manner.	

Area: Procurement				
Management Action 9	The Group will consider developing a formal report on procurement activities and providing this to appropriate bodies within each Group entity. The Group will consider integrating the following reporting areas, key supplier dependencies, expenditure outside the policy, contract extensions / variations, risks to the Group strategic procurement plan / strategy.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 31 March 2021	**Priority:** Medium

Area: Procurement	
Control 8	Five actions from the South Tees Development Corporation (STDC) Procurement review 2020 have been reviewed during the course of this audit.
Findings / Implications	Our testing has been undertaken to determine whether the actions raised as part of the previous STDC Procurement review conducted in 2020 have been appropriately implemented by the Group. The following actions have been considered in addition to the points raised on the scope: 1. **Procurement Strategy** The Procurement Strategy has been provided which documents how the Group has set its planned approach to procurement including the elements each Group entity is expected to consider when conducting procurement activities. 2. **Procurement forward plan** Following the introduction of the Procurement Strategy, the Group is currently in the process of developing a Group procurement implementation plan which will include a forward plan. 3. **Contract Justification Forms** From our sample testing contained under Control 4, we found that there were remaining issues concerning the completion of Contract Justification Forms. 4. **Award of Contract Forms** From our sample testing contained under Control 6, we found that there were remaining issues concerning the completion of Award of Contracts forms.

Area: Procurement	
	5. **Updated Contracts Register** From our sample testing contained under Control 7, we found that there were remaining instances in which awarded contracts had not been included on the centralised contracts register.
Management Action 10	Management will produce the procurement forward plan in conjunction with the procurement Implementation Plan. Contract Justification Forms *Actions raised under Control 4. Please see management actions 4 and 5 for details.* Awards of Contracts Forms *Actions raised under Control 5. Please see management actions 5 and 6 for details.* Updated Contracts Register *Actions raised under Control 6. Please see management actions 7 and 8 for details.*

Area: Procurement	
Control 9	IDEA data analytics testing was undertaken to: • Identify duplicate supplier name with different bank details; • Identify duplicate paid invoices; • Identify paid invoices with no corresponding purchase order recorded; and • Confirm if the purchase orders were authorised in accordance to authorisation limits.
Findings / Implications	The results of the IDEA data analytics testing can be found under Appendix B of this report. These results were provided to the Procurement Team for further comment. Suppliers We identified one supplier with the same name, different address, same bank sort code and different bank account. To be investigated by management. Invoices and Purchase Orders • 30 TVCA and 17 STDC invoices were identified where the invoice amount is recorded more than once. Management findings were as follows:

Area: Procurement

  - TVCA: The 30 items have been investigated and almost all found to have satisfactory explanations. One item (Ref. AP1336 dated 28 October 2019) requires further investigation.
  - STDC: TBC – no response received.
- 64 TVCA and 37 STDC invoices were identified where a corresponding purchase order was not recorded. Management findings were as follows:
  - TVCA: Most items had a valid explanation. However, 18 items did not have a Purchase Order when it appears they should have done so. Most were for very small items, the largest being for £12,000.
  - STDC: TBC – no response received.
- For 101 TVCA and 17 STDC purchase orders the authoriser was not found on the authorisation listing. Satisfactory responses were received for all items (e.g. maternity cover, authorising officer has left the business since).
- Two TVCA purchase orders were authorised by a member of staff not found on the authorised listing. Management investigation revealed that this was because the person worked for TVCA at the time the order has raised but has since moved to STDC.
- For one STDC purchase order the value was recorded as zero. To be investigated by management.

A management action has been raised to investigate these.

Management Action 11	The Procurement Team will investigate the remaining records identified in the data analytics testing and action as appropriate.	**Responsible Owner:** Group Chief Legal Officer	**Date:** 31 December 2020	**Priority:** **Low**

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective* **		Non Compliance with controls* **		Agreed management actions		
					Low	Medium	High
Procurement	4	(12)	3	(12)	6	4	0
Total					**6**	**4**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

** More than one management action has been raised against one control.

APPENDIX B: DATA ANALYTICS

Analytics Findings:

The following is a summary of findings from our data analytics work which we have discussed with management. This has involved us sharing the data analytics spread sheets which detail the findings for further consideration and checking.

For the purpose of our findings, we have used a ‘*pause*’ and ‘*tick*’ approach to highlight at a glance which areas require further investigation following our findings.

Area: Suppliers	
Criteria:	Identifying duplicate supplier name with different bank details
Source Data/Reports:	System generated supplier listing for TVCA and STDC.
Period Covered:	As at 4 September 2020
Testing Undertaken:	We obtained a list of all suppliers recorded on the finance system to identify duplicate supplier name with different or no bank details.
Issues identified:	We identified one supplier with the same name, different address, same bank sort code and different bank account.
Overall Conclusion:	Further investigation is required.
Comments from management:	TBC – no response received.
Data Analytics Report Reference:	TVCA IDEA Results Tab 1 Suppliers

Area: Supplier Invoice Payments	
Criteria:	Determine if any paid invoices have been duplicated.
Source Data/Reports:	System generated supplier invoice payments listings for TVCA and STDC.
Period Covered:	1 August 2019 to 31 July 2020
Testing Undertaken:	We obtained a report of supplier invoice payments made by each company for period 1 August 2019 to 31 July 2020 to identify potential duplicate supplier payments (invoice amounts recorded for supplier more than once).
Issues identified:	The following were identified where the invoice amount is recorded more than once: TVCA – 30 records STDC – 17 records
Overall Conclusion:	Further investigation is required on the STDC records identified and the one remaining TVCA item requiring further investigation by management.
Comments from management:	**TVCA:** The 30 items have been investigated and almost all found to have satisfactory explanations. One item (Ref. AP1336 dated 28 October 2019 requires further investigation. **STDC:** TBC – no response received.
Data Analytics Report Reference:	TVCA IDEA Results Tab 2 TVCA Creditors and Tab 3 STDC Creditors

Area: Invoices and corresponding Purchase Orders	
Criteria:	Determine the number of paid invoices with no corresponding purchase order recorded.
Source Data/Reports:	System generated supplier invoice payments listings for TVCA and STDC.
Period Covered:	1 August 2019 to 31 July 2020
Testing Undertaken:	We obtained a report of supplier invoice payments made by each company for 1 August 2019 to 31 July 2020 to identify the number of paid invoices with no corresponding purchase order recorded.
Issues identified:	The following were identified where a corresponding purchase order was not recorded: TVCA – 64 records STDC – 37 records
Overall Conclusion:	Further investigation is required on the outstanding records identified.
Comments from management:	**TVCA:** Most items had a valid explanation. However, 18 items did not have a Purchase Order when it appears they should have done so. Most were for very small items, the largest being for £12,000. **STDC:** TBC – no response received.
Data Analytics Report Reference:	TVCA IDEA Results Tab 4 TVCA Invoices No PO and Tab 5 STDC Invoices No PO

Area: Purchase Orders	
Criteria:	Determine if the purchase orders were authorised in accordance to authorisation limits.
Source Data/Reports:	System generated purchase orders raised listings TVCA and STDC.
Period Covered:	1 August 2019 to 31 July 2020
Testing Undertaken:	We obtained a report of purchase orders raised by TVCA and STDC for period 1 August 2019 to 31 July 2020 to determine that the purchase orders were authorised in accordance to authorisation limits.
Issues identified:	a) The following purchase orders were identified where the authoriser was not found on the authorisation listing: TVCA – 101 purchase orders STDC – 17 purchase orders b) For TVCA two purchase orders were authorised by a member of staff not found on the authorised listing. c) For one STDC purchase order the value was recorded as zero.
Overall Conclusion:	Further investigation is required on the final STDC purchase order item.
Comments from management:	a) The following purchase orders were identified where the authoriser was not found on the authorisation listing: TVCA – 101 purchase orders STDC – 17 purchase orders Satisfactory responses were received for all of the above items (e.g. maternity cover, authorising officer has left the business since). b) For TVCA two purchase orders where authorised by a member of staff not found on the authorised listing. Management investigation revealed that this was because the person worked for TVCA at the time the order was raised but has since moved to STDC. c) For one STDC purchase order the value was recorded as zero. To be investigated by management.
Data Analytics Report Reference:	TVCA IDEA Results Tab 6 TVCA PO Authorisation and Tab 7 STDC PO Authorisation

APPENDIX C : SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The internal audit assignment has been scoped to provide assurance on how the Authority manages the following area:

Objective of the area under review
That expenditure committed is in accordance with the Group's Financial Regulations, Government Procurement Regulations (2015) and OJEU processes.

Scope of the review

The key primary TVCA Group entities are Tees Valley Combined Authority (TVCA or "The Authority"), South Tees Development Corporation (STDC), Teesside International Airport Limited (TIAL) and, from 1 October 2020, South Tees Site Company (STSC). Each entity and, where applicable, different business organisations or combinations thereof, report through them into the overall TVCA Group structure. The Authority has developed a Group procurement strategy which was approved by its Audit and Governance Committee in May 2020 and ratified by Cabinet in July 2020. This strategy sets out the high-level principles and intended direction of travel in respect of procurement. Each entity has been charged with producing an implementation plan to manage the transition towards compliance with the requirements of the procurement strategy. Whilst these new arrangements are still under development (for example, there is not currently an overall Group procurement policy), our review will focus on the following areas, with a view toward shaping the development of these new arrangements:

- Each Group entity has an approved procurement policy in place which is reviewed on a regular basis.
- Each entity-specific procurement policy is aligned with the Group's Financial Regulations and all other applicable legislation and regulations.
- Entity-specific procurement policies are supported by detailed processes and that these have been clearly communicated to all relevant staff.
- Responsibilities and accountabilities for procurement activities are clear, aligned with the Group's Financial Regulations and clearly communicated to all relevant staff.
- Procurement activities are being conducted in line with the relevant entity policy, the Group's Financial Regulations and all other applicable legislation and regulations.
- Reporting on procurement activities is aligned to the above requirements and is sufficiently timely, and made to the most appropriate party / body, to enable effective and timely action to be taken if required in the event of, for example:
  - ➢ Key supplier dependencies.
  - ➢ Expenditure outside of policy.
  - ➢ Risks to the delivery of or compliance with the Group strategic objectives are identified.

    - Contract extensions or “scope creep” is identified in order that cumulative expenditure can be assessed against the Group’s Financial Regulations and all other applicable legislation and regulations.
- A register of supplier contracts is maintained.
- Our work will also include a review of the progress of previously-raised management actions at STDC.
- Our work will incorporate the use of Computer Assisted Audit Techniques (CAATs) using the IDEA software package in order to:
    - Analyse expenditure with suppliers to inform the selection of samples to check compliance with the relevant entity policy, standing orders and external regulation, where appropriate.
    - Identify individual expenditure elements at or around policy and delegated authority thresholds.
    - Identify duplicate entries such as suppliers, bank accounts or invoices.

The following limitations apply to the scope of our work:

- The scope of the work is limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review.
- Conclusions are based on our assessments made through discussions with management, assessment of the current framework of controls and review of relevant documentation made available.
- Our review will not consider current levels of compliance with the new Group procurement strategy; however, we will consider the requirements of the strategy when agreeing any actions found to be necessary in order to inform the implementation plans for delivery of the new strategy.
- Our work will not consider which supplier has been chosen for a particular expenditure stream, only whether the correct process has been used to evaluate and select that supplier.
- We will not re-perform tender evaluation or value for money decisions.
- Our work will not cover day to day processing activities (i.e. orders, goods received, payments or credit notes).
- Our review will not include expenditure via credit cards or employee expenses.
- We will not review business continuity plans in relation to supplier monitoring and performance.

Debrief held	12 October 2020	**Internal audit Contacts**	Robert Barnett, Head of Internal Audit
Draft report issued	20 October 2020		Philip Church, Client Manager
Responses received	29 October 2020		Michael Gibson, Assistant Manager
			Josh Martin, Lead Auditor
			Sam Wood, Internal Auditor
Final report issued	30 October 2020	**Client sponsor**	Gary MacDonald, Group Director of Finance and Resources
		Distribution	Gary MacDonald, Group Director of Finance and Resources
			Peter Judge, Group Chief Legal Officer

ITEM 13

Audit & Governance Committee Forward Plan 2020/21

Standing Items

- Minutes from the Previous Meeting
- Action Tracker
- Chief Executive Update to include COVID-19 Update
- Forward Plan
- Date and Time of the Next Meeting

Date	Venue	Item
Thursday 19th November 2020	Microsoft Teams Video Conference	Appointment of Chair & Vice Nomination for a representative to STDC Audit and Risk Committee Annual Financial Statements External Audit Completion Report and Value for Money Statement Treasury Management Strategy Mid Year and Year End Updates Corporate Risk Register Internal Audit Progress Report
Proposed Tuesday 19th January 2021	TBC	Internal Audit Progress Report External Audit Progress Report Corporate Risk Register Annual Financial Statements 2019/20 Audit Completion Report
TBC June/July 2020	TBC	Internal Audit Progress Report External Audit Progress Report Corporate Risk Register Risk Management Strategy Annual Review Treasury Management Advisors Update on GDPR