TEES VALLEY COMBINED AUTHORITY

Audit and Governance Committee
Agenda

Date: Wednesday 28th February 2018 at 10.00 am

Venue: Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY

Membership:
Chair - Councillor Nicola Walker (Middlesbrough Borough Council)
Vice Chair - Councillor Michael Dick (Redcar & Cleveland Borough Council)
Councillor Barry Woodhouse (Stockton-On-Tees Borough Council)
Councillor Charles Johnson (Darlington Borough Council)
Councillor Sandra Belcher (Hartlepool Borough Council)
Paul Bury (Independent member)

AGENDA

1. **Introductions**

2. **Apologies for absence**

3. **Declarations of interest**

4. **Minutes**
   The minutes of previous meetings for confirmation and signature

5. **External Audit progress Report**
   Attached

6. **Audit Strategy Memorandum**
   Attached

7. **Internal Audit report**
   Attached

8. **Internal Audit Charter and Audit Plan**
   Attached

9. **Treasury Management Strategy 2018/19**
   Attached

10. **Anti-Fraud & Corruption Agreement**
    Attached

Audit and Governance Committee
Agenda

11. Corporate Risk Register
Attached

12. Work programme 2018/19
Attached

13. Date of the next meeting
Thursday 31st May 2018 at 10.00am

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: Sharon Jones – 01642 524580 – sharon.jones@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.

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Minutes

TEES VALLEY COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

Cavendish House, Teesdale Business Park, Stockton-On-Tees TS17 6QY

Tuesday 5th September 2017 at 2.00pm

MEETING

ATTENDEES

Members

Cllr Nicola Walker (Chair)	Middlesbrough Borough Council	MBC
Cllr Michael Dick (Vice Chair)	Redcar & Cleveland Borough Council	R&CBC
Cllr Barry Woodhouse	Stockton Borough Council	SBC
Cllr Alan Coultas	Darlington Borough Council	DBC
Colin Fyfe	Independent Member	
Paul Bury	Independent Member	

Apologies for absence

Cllr Charles Johnson	Darlington Borough Council	DBC
Cllr Sandra Belcher	Hartlepool Borough Council	MBC

Officers

Julie Gilhespie	Finance Director	TVCA
David New	Senior Finance Manager	SBC
Andy Bryson	Finance Manager	SBC
Andrew Barber	Audit & Risk Manager	SBC
Sarah Brackenborough	Governance Manager	TVCA

Also in Attendance

Mark Kirkham	Partner	Mazars LLP
Gareth Roberts	Senior Manager	Mazars LLP

AGC 13/17 **INTRODUCTIONS**

Introductions from Committee members and officers were made. Since the last meeting Tees Valley Combined Authority has appointed a Finance Director, Julie Gilhespie who was introduced to the Committee as the lead officer for all future Audit and Governance Committee meetings.

AGC 14/17 **DECLARATIONS OF INTEREST**

There were no interests declared.

AGC 15/17 **MINUTES**

Consideration was given to the minutes of the meeting held on 28th June 2017

Resolved that the minutes be confirmed and signed as a correct record.

AGC 16/17 **TERMS OF REFERENCE**

The recommended terms of reference for the Committee have been drafted based on suggested terms of reference published by CIFPA. The terms of reference need to be agreed by the Committee.

Resolved that the recommended Terms of Reference are agreed but that these should be mapped to the Committee's Forward plan to ensure alignment.

AGC 17/17 **INTERNAL AUDIT ANNUAL REPORT**

Consideration was given to a report showing the current position in respect of the 2016/2017 audit plan and the results of the work undertaken.

The Committee requested that target completion dates be added to the Internal Audit plan for future meetings.

Resolved that the internal Audit report is noted and target completion dates will be added to the plan where possible.

AGC 18/17 **EXTERNAL AUDIT COMPLETION REPORT AND VALUE FOR MONEY OPINION**

Consideration was given to the external audit completion report for 2016/17

The detail of the audit completion report was shared and it was confirmed that the auditors are satisfied with the draft financial report. There are no adverse matters that are required to be brought to the attention of the Committee.

The Committee thanked the Auditors for the work carried out to ensure that a positive external audit report was received.

Resolved that the External Audit completion report is noted.

AGC 19/17 **STATEMENT OF ACCOUNTS**

Consideration was given to a report regarding the statement of accounts for 2016/17. The accounts have been completed in accordance with the "Code of Practice on Local Authority Accounting in the United Kingdom 2016/17" which is prepared under International Financial Reporting Standards.

Resolved that the Statement of Accounts report be noted

AGC 20/17 **ANNUAL GOVERNANCE STATEMENT**

The Accounts and Audit Regulations 2015 require authorities to conduct a review at least once a year of the effectiveness of their governance framework and produce an Annual Governance Statement**.**

Consideration was given to a report regarding the draft Annual Governance statement for 2016/17. The Statement of accounts and Annual Governance statement will be presented for Cabinet approval on 29th September. Following Cabinet approval the Governance Statement will be signed by the Mayor and the Managing Director.

Resolved that The draft Annual Governance statement is noted

AGC 21/17 **RISK MANAGEMENT STRATEGY AND CORPORATE RISK REGISTER**

Consideration was given to a report regarding the Combined Authority Risk Management Strategy and the Corporate Risk Register at the end of the second quarter of 2017/18.

It was explained that the strategy sets Tees Valley Combined Authority's approach to risk management and integrates the requirements of the Single Pot assurance Framework.

Discussion took place around the strategy and the high risks showing on the register. The Committee requested that further detail on risk appetite is made available to them to explain further the approach to this.

Resolved that:

- The Committee approve the Tees Valley Combined Authority Risk Management Strategy
- The Committee considered the contents of the Risk register

AGC 22/17 **TREASURY MANAGEMENT STRATEGY ANNUAL REPORT**

Consideration was given to a report informing of the performance against the Treasury Management and prudential indicators set in the Treasury Management Strategy.

Discussion took place regarding the link between risk appetite and investment limits. The Committee also requested a list be provided showing key documents, when these will be published and what approval route they take.

Resolved that:

- The report be noted
- A timetable of key documents is provided to the Committee

AGC 23/17 **WORK PROGRAMME**

Consideration was given to the work programme for the Committee.

Resolved that the work programme is noted.

DATE OF NEXT MEETING

The date of the next meeting to be held at Cavendish House on 1st December 2017 is noted.

Minutes

TEES VALLEY COMBINED AUTHORITY
AUDIT AND GOVERNANCE COMMITTEE

Cavendish House, Teesdale Business Park, Stockton-On-Tees TS17 6QY
Friday 19th January 2018 @ 3:30pm

MEETING

ATTENDEES

Members		
Cllr Nicola Walker (Chair)	Middlesbrough Borough Council	MBC
Paul Bury	Independent Member	
Cllr Barry Woodhouse	Stockton Borough Council	SBC
Cllr Charles Johnson	Darlington Borough Council	DBC
Apologies for absence		
Andrew Lewis	Managing Director	TVCA
Cllr Sandra Belcher	Hartlepool Borough Council	HBC
Cllr Michael Dick	Redcar & Cleveland Borough Council	RCBC
Officers		
Julie Gilhespie	Finance Director	TVCA
Andy Bryson	Finance Manager	SBC
Sally Henry	Governance & Personnel Officer	TVCA

The meeting was not quorate and therefore no decisions could be made. The meeting went ahead so members could discuss items that did not require a decision

INTRODUCTIONS

As the meeting was not quorate again, there was a discussion surrounding how this can be prevented from happening in the future. Suggestions were made re: increasing the membership and lowering the quorum.
The group were advised that there has been some interest in the vacancy for an independent member following the resignation of Colin Fyfe.

DECLARATIONS OF INTEREST

There were no interests declared.

MINUTES

The minutes of the meeting held on 5th September 2017 could not be considered as the meeting was not quorate.

Resolved that the minutes be considered at the next meeting.

TREASURY MANAGEMENT STRATEGY (2018/19)

Consideration was given to the Treasury Management Strategy report. Members were happy to recommend the report to Cabinet subject to changes discussed.

TREASURY MANAGEMENT PRACTICES (2018/19)

Members considered a report which informed them of the proposed 2018/19 Treasury Management Practices for Tees Valley Combined Authority.
Members were happy to endorse the report subject to changes requested.

GENERAL RESERVES

Consideration was given to a report that sets out the background and methodology used in relation to the holding of reserves by the Combined Authority.

Members noted the report.

FORWARD PLAN

An additional meeting of the Audit & Governance Committee will be convened in March. It was suggested that the items on the Forward Plan for the meeting scheduled for 28th February be split between the 2 meetings with Corporate Risk Register and Anti-Fraud & Corruption Agreement moving to the March meeting.

DATE OF NEXT MEETING

28th February, 2018 at 10am

Audit Progress Report

Tees Valley Combined Authority

February 2018

CONTENTS

1. AUDIT PROGRESS

Audit progress

This report sets out progress on the external audit for 20171/8.

Since the Committee last met, we have:

- held internal planning meetings as part of our planning process for the 2017/18 audit;
- had update meetings with finance in respect of planning for the 2017/18 interim and final audit visits;
- undertaken planning work to refresh our documentation in respect of the Authority's systems (including undertaking walkthrough testing);
- refreshing our understanding of the processes in place at the Authority that inform the preparation of the financial statements;
- undertaken our risk assessment as part of planning for our 2017/18 VFM conclusion; and
- developed and agreed our 2017/18 Audit Strategy Memorandum (Annual audit plan) with Officers which will be presented separately to the Audit and Governance Committee at its February meeting.

Our audit work is on track for this time of year, and we have no matters to raise with the Committee at this stage of our audit.

Final accounts workshop

As in previous years, we ran an annual final accounts workshop for local authorities, designed to help ensure the final accounts process goes as smoothly as possible. The workshop was held in February 2018; we invited officers to ensure that the Authority was represented at this event, which was free of charge.

2. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication
1	**Public Sector Audit Appointments Ltd (PSAA) Confirmation of auditor appointments from 2018/19, December 2017**
2	**PSAA 2018/19 fee scale consultation, December 2017**
3	**PSAA Oversight of audit quality, quarterly compliance reports 2017/18**

1. PSAA Confirmation of auditor appointments from 2018/19

PSAA has confirmed the auditor appointments from 2018/19 to the opted-in bodies by the statutory deadline of 31 December 2017.

Mazars LLP has been appointed as the external auditor for Tees Valley Combined Authority.

Further information can be found at www.psaa.co.uk

2. PSAA 2018/19 fee scale consultation

The consultation, which closed on 15 January 2018, set out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2018/19 financial statement at bodies that opted into PSAA's national auditor appointment scheme.

PSAA proposed that scale audit fees for 2018/19 should reduce by 23 per cent, compared to the fees applicable for 2017/18. This reduction is possible as a result of the favourable prices secured from audit firms in the recent audit services procurement.

Further information can be found at www.psaa.co.uk

3. PSAA Oversight of audit quality, quarterly compliance reports 2017/18

The latest quarterly 2017/18 monitoring report highlights full compliance with the Regulator's standards for Mazars LLP.

http://www.psaa.co.uk/audit-quality/principal-audits/mazars-audit-quality/

3. CONTACT DETAILS

Please let us know if you would like further information on any items in this report.
www.mazars.co.uk

Mark Kirkham
Partner
0113 387 8850
mark.kirkham@mazars.co.uk

Gareth Roberts
Senior Manager
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Address:
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Aykley Heads,
Durham,
DH1 5TS
0191 383 6300

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Audit Strategy Memorandum

Tees Valley Combined Authority (and Group)

Year ending 31 March 2018

MAZARS

CONTENTS

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

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

7 February 2018

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2018

We are pleased to present our Audit Strategy Memorandum for Tees Valley Combined Authority (and Group) for the year ending 31 March 2018.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0113 387 8850.

Yours faithfully

Mark Kirkham

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Tees Valley Combined Authority (the Authority) and Group for the year to 31 March 2018. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: www.psaa.co.uk/audit-quality/terms-of-appointment/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Authority and Group for the year.

Reporting to the NAO

We report to the NAO in respect of the Authority's Whole of Government Accounts (WGA) submission.

Value for Money

We are required to conclude whether the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

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 consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Authority is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM

- Mark Kirkham, Partner
- mark.kirkham@mazars.co.uk
- 0113 387 8850

- Gareth Roberts, Senior Manager
- gareth.roberts@mazars.co.uk
- 0191 383 6323

- David Hurworth, Assistant Manager
- david.hurworth@mazars.co.uk
- 0191 383 6328

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our approach is risk-based and primarily driven by the factors we consider lead to a higher risk of material misstatement. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

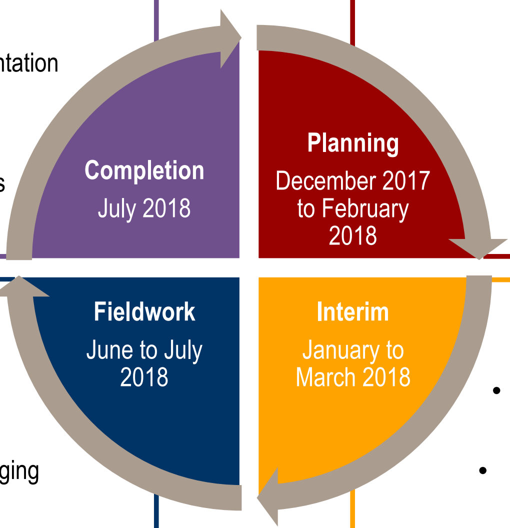
If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to Audit and Governance Committee
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Authority
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on internal audit, we will evaluate their work and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Authority's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Financial instrument disclosures	Arlingclose	Assurance provided by the NAO

Service organisations

International Auditing Standards define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Authority and our planned audit approach.

Items of account	Service organisation	Audit approach
Whole of the financial statements (including processing financial transactions and preparation of the financial statements)	Stockton-on-Tees Borough Council	Review of and access to records and information at the service organisation.

Reporting deadlines

As we have previously discussed with the Audit and Governance Committee, the statutory timetable for the production and audit of the Authority's financial statements changes for 2017/18. The Authority is now required to produce accounts by 31 May 2018 (1 month earlier) and to publish audited accounts by 31 July 2018 (2 months earlier). The Authority successfully met the earlier timetable in 2016/17 and the majority of the audit work was also completed by the end of July 2017.

Group audit approach

We have been advised by management that Group Financial Statements will also be prepared for the year to 31 March 2018, and will incorporate both the Authority and South Tees Development Corporation.

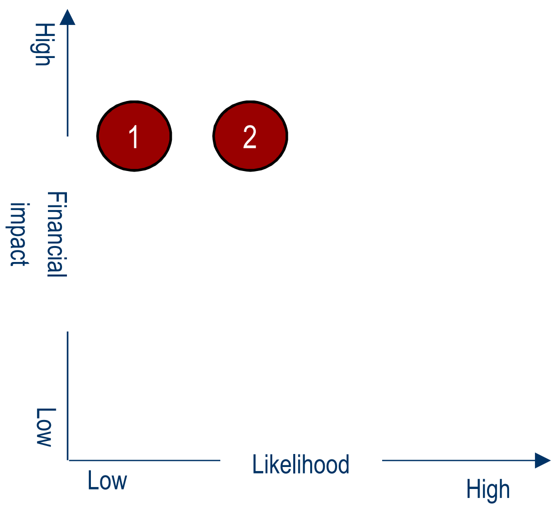
We are responsible for the direction, supervision and performance of the Group audit. We are also the external auditor for South Tees Development Corporation.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk	A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
Enhanced risk	An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to: • key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and • other audit assertion risks arising from significant events or transactions that occurred during the period.
Standard risk	This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant and other enhanced risks. We have summarised our audit response to these risks on the next page.



	Risk
1	Management override of control
2	Valuation of the defined benefit pension scheme and pensions estimates (IAS19)

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We explain the identified risks and our testing approach in the table below. An audit is a dynamic process and if we change our view of risk or our approach to address the identified risks during the course of our audit we will report this to the Audit and Governance Committee.

Significant risks

	Description of risk	Planned response
1	**Management override of controls** 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 there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Defined benefit liability valuation** 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.	We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by PSAA Ltd.

5. VALUE FOR MONEY WORK

Our approach to value for money work

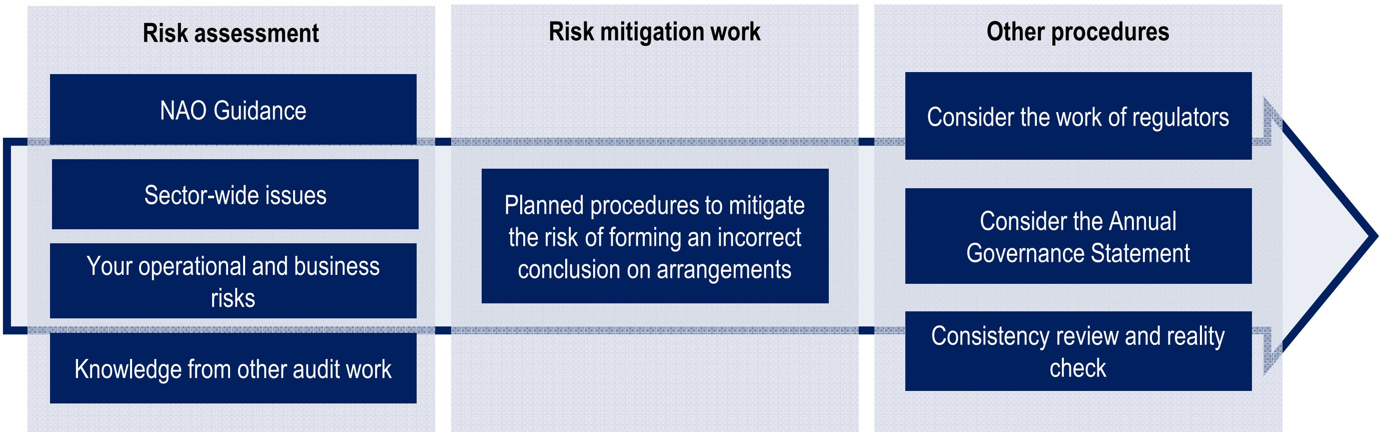
We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the criterion and sub-criteria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

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake is provided below.



5. VALUE FOR MONEY WORK (CONTINUED)

Significant value for money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) risk exists. Risk, in the context of our VFM 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. As outlined above, we draw on our deep understanding of the Authority and its partners, the local and national economy and wider knowledge of the public sector.

For the 2017/18 financial year, at this stage we have not identified any significant risks in relation to our VFM work. We will keep this under review as our audit progresses.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Authority's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA.

Service	2016/17 fee	2017/18 fee
Code audit work	£30,000	£30,000

Our proposed 2017/18 fee for Code audit work is as communicated in our fee letter of 20 April 2017.

Fees for non-PSAA work

We have not, and at the time of writing this report do not expect to undertake any non audit work. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Services provided to other entities within the Authority's group

We have been appointed as the external auditor of South Tees Development Corporation. We are currently awaiting confirmation from PSAA of the audit fee for the year to 31 March 2018.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham in the first instance.

Prior to the provision of any non-audit services Mark Kirkham will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s) Authority	Initial threshold (£'000s) Group
Overall materiality	£1,250	£1,270
Specific materiality • Related Party Transactions • Senior manager remuneration	 • £100 • £44	 • £100 • £44
Trivial threshold for errors to be reported to the Audit and Governance Committee	£37	£38

Materiality

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We consider that gross revenue expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross revenue expenditure.

Based on last year's audited accounts we anticipate the overall materiality for the year ending 31 March 2018 to be in the region of £1.250m for the Authority, and £1.270m for the Group based on best estimate of expenditure at this stage (£668k for the Authority in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £37,000 for the Authority and £38,000 for the Group, based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2017/18

There are no significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2017/18. Minor changes to the Code include:

- introduction of key reporting principles for the preparation and publication of the Narrative Report;
- clarification of reporting requirements on accounting policies and going concern; and
- updating the accounting requirements for the Housing Revenue Account to align these with changes to underlying regulations and directions.

None of the above are anticipated to have a significant impact on the Authority.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 9 – Financial Instruments	2018/19	The standard will replace IAS 39 and will introduce significant changes to the recognition and measurement of the Authority's financial instruments, particularly its financial assets. Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Authority will continue to measure the majority of its financial assets at amortised cost. For authorities that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. At this stage it is unclear whether statutory provisions, over and above those already in place, will be put in place to mitigate the impact of these fair value movements on the Authority's general fund balance.
IFRS 16 – Leases	2019/20	We anticipate that the new leasing standard will be adopted by the Code for the 2019/20 financial year. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. The introduction of this standard is likely to lead to work being required in order to identify all leases to which the Authority is party to.

The 2018/19 Code will also apply the requirements of IFRS 15 Revenue from Contracts with Customers, but it is unlikely that this will have significant implications for most local authorities.

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 7

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

28th FEBRUARY 2018

REPORT OF THE CHIEF FINANCIAL OFFICER

INTERNAL AUDIT PROGRESS REPORT

SUMMARY

This report provides members with an update of the work carried out by the Internal Audit Section and the progress made against the Audit Plan 2017/18.

RECOMMENDATIONS

It is recommended that the current position as identified in the attached update report is noted.

DETAIL

Background

1. Stockton-on-Tees Borough Council Internal Audit Services provide assurance to the Tees Valley Combined Authority and is an independent appraisal function established to objectively examine, evaluate and report on the adequacy of internal controls. This role ensures that there is proper economic, efficient and effective use of resources. It also ensures that the Authority has adequate accounting records and control systems.

Current Position

2. A plan of work was agreed with this committee on 29 March 2017. The service has in place an audit charter which outlines how the service will be delivered to the combined authority and was also agreed on 29 March 2017. Services are being delivered to the combined authority in-line with this charter.

3. The attached update report shows the current position in respect of the progress against the 2017/18 audit plan and the results of the work that has been undertaken. There has been a little slippage due to staff absence, this is not expected to impact on being in a position to issue an overall opinion by June 2018.

FINANCIAL AND LEGAL IMPLICATIONS

4. None

RISK ASSESSMENT

5. The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

CONSULTATION

6. Not Applicable

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TEES VALLEY COMBINED AUTHORITY

INTERNAL AUDIT

AUDIT COMMITTEE UPDATE REPORT

2017/18

1 AUDIT PROGRESS

1.1 Shown below is a list of all the audit engagements undertaken during the year together with their assurance opinion. An explanation of any High priority recommendations is provided.

2017/18 Audit Plan Current Position as at 19 February 2018

Audit ID	Name	Audit Type	Status	Planned Completion	Assurance	Recommendations L	M	H	C
2524	Virtualisation	Planned	Not Started	31 March 2018					
2526	VAT	Planned	On-Going	31 January 2018					
2528	Server Operating Systems	Planned	Not Started	31 March 2018					
2535	Payroll & Absence Recording	Planned	On-Going	31 March 2018					
2536	Environmental Controls	Planned	Complete		Full Assurance	-	-	-	-
2539	Treasury Management	Planned	Complete		Full Assurance	-	-	-	-
2542	Debtors	Planned	On-Going	31 March 2018					
2543	Data Protection	Planned	On-Going	31 March 2018					
2544	Creditors	Planned	On-Going	31 March 2018					
2545	Cloud Computing	Planned	Not Started	31 March 2018					
2549	Recruitment Services	Planned	Draft	31 January 2018					
2552	Active Directory	Planned	On-Going	31 March 2018					
2558	Business Continuity & Disaster Recovery	Planned	On-Going	31 January 2018					
2581	Absence Management	Planned	Complete		Full Assurance	1	-	-	-
2559	Officer Payments - Mileage	Planned	Complete		Substantial Assurance	-	2	-	-
2564	Freedom of Information	Planned	On-Going	31 December 2017					
2568	ICT Backup & Recovery / Disaster Recovery	Planned	On-Going	31 March 2018					
2569	Outlook/Email	Planned	On-Going	31 December 2017					
2581	Bank Reconciliation	Planned	Not Started	31 March 2018					
N/A	Grant Audit Work	Planned	On-Going	31 March 2018	Full Assurance to Date	-	-	-	-
	Investment Decision Process	Planned	On-Going	28 February 2018					

Note – The majority of audits with a completion date of 31 March 2018 are undertaken via a process of detailed sampling and periodic monitoring therefore an audit opinion will only be given at the year-end.

Internal Audit Report

Summary of Findings

Environmental Controls

Background & Scope:

The scope of the audit work was as follows:

- Ascertain whether the locations of the main computer facilities are appropriate and adequate physical security measures are in place.
- Consider whether officer access to the computer facilities is appropriately controlled.
- Consider whether visitor access to the computer facilities is appropriately controlled.
- Establish whether written policies support current security practices and are communicated to the appropriate persons.
- Consider whether significant additional ICT hardware/equipment storage locations are appropriate and adequate physical security measures are in place for these locations.
- Ascertain whether ICT equipment located in computer facilities is adequately and appropriately protected from significant environmental threats.
- Ascertain whether ICT equipment located in computer facilities is protected against power failure and power fluctuations.
- Consider whether environmental protection systems are adequately maintained and tested.
- Ascertain whether adequate and appropriate emergency/notification procedures are in place.
- Ascertain whether general ICT environmental controls relating to the computer facilities are considered.

Executive Summary

Overall, a sound system of controls is considered to be in place.

Summary of Conclusions:

The points identified during audit testing can be summarised as follows:

Overall, adequate and appropriate ICT environmental controls were considered to be in place to protect important ICT equipment. The two important data centres are fit for purpose and are adequately equipped. The physical security measures in place for these data centres are satisfactory and access is well controlled. A minimal risk issue in relation to access to the Town Hall data centre was identified and the details were passed to the Information Security Team to be raised with the appropriate DBC officers.

Audit Opinion:

FULL ASSURANCE - A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.

Recommendations:

The following recommendations (where applicable) have been made to management all of which have been accepted and an action plan drawn up to implement.

No Recommendations Made

Treasury Management

Background & Scope:

The scope of the audit work undertaken covered:

- Policies and Procedures
- Counterparties
- Forecasting
- Investments
- Borrowing
- Performance Management
- Fraud Prevention

Executive Summary

Overall a positive position was found with no recommendations being made. There were three outstanding recommendations from the previous audit and all were found to have been implemented.

Summary of Conclusions:

The points identified during audit testing can be summarised as follows:

- The service has relevant policies and procedures in place which are adhered to in practice.
- It was found that the Council has an approved counterparties list which forms part of the Council's annual Treasury Management strategy.
- It was found that there are effective cash flow forecasting processes in place which are adhered to in practice.
- Investments are being made in adherence to the Council's Treasury Management Policy/Strategy.
- The management and monitoring of existing loans appears to be robust to ensure interest and repayment obligations are met.
- The Council was found to comply with the CIPFA Code of Practice on Treasury Management with regard to performance management reporting.
- There are adequate policies and procedures in place to prevent fraud within the treasury management service.

Audit Opinion:

FULL ASSURANCE - A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.

Recommendations:

The following recommendations (where applicable) have been made to management all of which have been accepted and an action plan drawn up to implement.

No Recommendations Made

Officer Payments - Mileage

Background & Scope:

The audit work undertaken covered the following objective areas:

- Responsibility - The responsibility for important aspects of the mileage allowance payment process should have been appropriately assigned and communicated to appropriate parties.
- Rates - Appropriate mileage allowance rates should be in use and should have been communicated to claimants and other appropriate parties.
- Claimants - Mileage allowance claimants should be required to provide appropriate details of themselves and their vehicles prior to payments being made.
- Claims - Mileage allowance claims should be correctly completed and administered.
- Payments - Mileage allowance payments made should be reconciled between the originating system and the payment system.

Executive Summary

Testing undertaken has shown that the controls Xentrall have in place for the administration of mileage claims are adequate and appropriate. Areas where strengthening of controls would improve the process tend to be those controlled by service managers, i.e. level of detail recorded on claims, checking of documents. However, recommendations have been made in respect of the '75 mile' rule and the integrity of the Agresso system around claims in excess of 8,500 miles which could result in reducing the risk of overpayments being made.

Summary of Conclusions:

The points identified during audit testing can be summarised as follows:

- The responsibilities for important aspects of the mileage allowance payment process are considered to have been appropriately assigned and communicated.
- By referring to documentation, authorisation and legislation, it can be ascertained that the mileage allowance rates currently in use are correct.
- Current mileage rates are clearly communicated to claimants and other appropriate parties.
- The level of details required in order to submit mileage claims is deemed to be appropriate in respect of all three authorities.
- The required details provided by claimants were found to be correctly recorded in all except one case where the individual did not have business cover insurance which has now been rectified but does raise the question of whether or not the manager or officer responsible for submitting documents to Xentrall are fully aware of and understand the requirements in respect of claiming mileage.
- Manual claim forms included the necessary declaration and observations confirmed that claims were being signed by claimants. Electronic claims include a declaration prior to submission stating that all mileage is bona-fide.
- Although in some cases there is sufficient information for managers to approve claims, policies are still not being fully adhered to in relation to entering journey details to enable management to validate claims and may not be fully compliant with HMRC requirements.
- Testing in respect of calculations identified that calculations were correct.
- It is confirmed that claims are appropriately authorised.

- The 75 mile rule is not always applied and claimants/managers may need a reminder of how the system operates.
- Mileage allowance payments made are reconciled between the originating system and the payment system with amounts paid correctly being shown on payslips.

Audit Opinion:

SUBSTANTIAL ASSURANCE - Overall, there is a reasonably sound system of internal controls. The system should achieve its objectives but there are areas where internal controls need to be improved.

Recommendations:

The following recommendations (where applicable) have been made to management all of which have been accepted and an action plan drawn up to implement.

1	That a communication goes out to staff/management to remind them that for all journeys they need to record reasons for the journey and passenger names and any journeys in excess of 75 miles should be split on the claim, with the first 75 miles being entered on one line and the rest on a second line.

2	In relation to the rate payable in respect of mileage claimed in excess of 8500, investigations should be undertaken around the integrity of the system due to anomalies found in testing of such transactions.

Absence Management

Background & Scope:

The scope of the audit is as follows:-

- To ensure that if an officer's sickness absence entailed a trigger-point was reached, notification is received by the relevant manager and that the appropriate follow-up action was undertaken.
- To ensure fit notes have been obtained as required for the dates of the sickness absence.
- To ensure absence monitoring meetings have been held and outcomes recorded.
- To ensure when an employee has returned to work this is effectively managed and that PSE and HR Online has been updated as required.
- To ensure appropriate officers have access to the relevant absence management policies and procedures and have a broad awareness of their content.
- To ensure managers are aware of who to obtain advice from as required in HR Advisory.
- To ensure absence management reports are being produced and issued to managers or any other interested parties on an ad-hoc/periodic basis when required.

Executive Summary

Overall a sound system of controls were found to be in place. One recommendation has been made to remind managers of the requirement to ensure the return to work section relating to an officers sickness absence is fully completed on PSE so a complete audit trail is maintained.

Summary of Conclusions:

The points identified during audit testing can be summarised as follows:

- Managers are aware of the sickness absence trigger points and what the appropriate follow-up action is apart from 1 manager who was unsure of what follow-up action would be required if an employee in their service area has hit a trigger point.
- All fit notes have been obtained as required by managers which covered all the dates of an officers sickness absence, apart from for 1 officer, whereby a fit note was not recorded as being received for a period within the absence.
- Absence monitoring meetings have been held with officers and outcomes recorded.
- Effective management is in place when an officer returns to work and outcomes based on this are fully recorded, apart from for 3 officers, whereby the outcomes have only been partially recorded.
- Officers and managers have access to the Attendance Management Policy and Procedure via the Council's intranet.
- Managers are aware of who to obtain advice from in HR in respect of absence management.
- Managers are receiving a copy of the open-ended sickness report as required, for officers in their service area and other ad-hoc reports are available when required.

Audit Opinion:

FULL ASSURANCE - A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.

Recommendations:

The following recommendations (where applicable) have been made to management all of which have been accepted and an action plan drawn up to implement.

1	Managers should be reminded of the requirement to ensure the return to work section of HR Online is fully completed so a complete audit trail is maintained in respect of officer's sickness absence.

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 8

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

28th FEBRUARY 2018

REPORT OF FINANCE DIRECTOR

INTERNAL AUDIT CHARTER & PROPOSED AUDIT PLAN 2018-19

SUMMARY

The purpose of this report is to advise Members of the Internal Audit Charter and proposed annual Audit Plan for the coming financial year 2018-2019.

RECOMMENDATION

i. That the Audit and Governance Committee approves the Internal Audit Charter (**Appendix A**) and the rights of access conferred within.

ii. That the Audit and Governance Committee approves the proposed Audit Plan for 2018-2019 (**Appendix B**).

iii. That the Audit and Governance Committee notes the indicative strategic Audit Plan for 2019-2023 and that there are sufficient resources available to deliver that plan.

DETAIL

1. The requirement for the Council to have an internal audit function is outlined in Section 151 of the Local Government Act 1972. More specific requirements are detailed in the Accounts and Audit (England & Wales) Regulations 2015 which requires the Authority to:

    a. "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

Public Sector Internal Audit Standards

2. The Public Sector Internal Audit Standards were published on 18th December 2012 and updated in March 2016. These standards, which are based on the requirements of the Institute of Internal Auditors (IIA), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They are mandatory and apply to all internal audit service providers, whether in-house, shared or outsourced.

3. There are three distinct areas covered by the standards:-

   - A definition of Internal Auditing;
   - A Code of Ethics designed to promote an ethical, professional culture; and
   - The International Standards for the Professional Practice of Internal Auditing.

4. CIPFA has provided guidance on the application of Public Sector Internal Audit Standard in the form of an Application Note. The Internal Audit Charter (attached) has been prepared in accordance with the Public Sector Internal Audit Standards and this guidance.

Internal Audit Charter

5. Under the standards, the Procurement and Governance Manager is required to prepare an Internal Audit Charter. This is a high level statement of how the Internal Audit Service will be delivered to meet the requirements of the legislation and the standards.

6. The revised charter attached sets out the approach for the period 2018-2023 and gives details of:

   - Purpose of the Internal Audit Service
   - Scope of Internal Audit work
   - Access to Information
   - Resourcing of the Service
   - Future Development of the Service

7. The Internal Audit Charter is attached at **Appendix A**.

Audit Plan

8. The standards state that a risk based plan designed to implement the audit charter and allow an annual internal audit opinion to be prepared should be produced. As part of the process for considering how we would deliver a shared service we reviewed our approach to assessing risk and prioritising the work we will undertake. The new approach utilises a process of assessing the risk posed in each area taking account of other forms of assurance as well as a periodic review of a sample of data to establish if there is any evidence to

suggest our previous opinion may no longer be valid. This approach allows us to monitor more frequently than we currently do whilst spending less time undertaking detailed testing programmes on areas where there is no evidence to suggest there have been any changes from the previous audit.

9. The risk assessment uses a number of factors to determine the likelihood of issues occurring including an understanding of the full scope of systems in operation, major change, concerns/external interest and results of previous audit work. It then assesses the impact any issues may have on the council's strategic objectives, reputation, financial plans, assets and also the potential impact on individuals and/or the environment. This process will be further refined to take account of the monitoring work mentioned in para 9.

10. The work to be undertaken for the Tees Valley Combined Authority is part of a broader plan which covers Stockton-on-Tees Borough Council and Darlington Borough Council. The plan for TVCA is formulated in a slightly different way to the main plan as much of the assurance work will be undertaken as part of other audit work and as such represents an allocation of time set aside to examine samples relative to TVCA as part of these audits. The audit plan outlined in Appendix B identifies the areas where the combined authority can expect to receive assurance and when. There are two exceptions to this where specific audits applicable only to the combined authority will be undertaken, Investment Fund Management and Concessionary Travel Scheme. These audits therefore represent a significant proportion of the time allocated during the year.

11. As part of the process, the plan is subject to consultation with the Authority's external auditors. High priority is given to key financial systems, any significant corporate projects and specific areas requested by Management.

12. The proposed level of resources within the service can be identified as gross audit days based on 7.6 FTE's with 2 officer part-time. This is equivalent to 1976 audit days in 2018/2019. Allowances have been made for annual leave, bank holidays, sickness, training and administrative duties. No allowance has been made for staff turnover.

13. The proposed Internal Audit Plan for 2018-19 and indicative plans for 2019-20, 2020-2021, 2021-2022 & 2022-23 are attached at **Appendix B.**

14. The planned audit work to be undertaken on behalf of the Tees Valley Combined authority is incorporated into a broader audit plan. Based on the assumption that the same level of annual resources shown above will be available for the entire period 2018-2023 there is sufficient resources deliver this broader audit plan and subsequently prepare an opinion to the combined authority.

Development of the Audit Service

15. The service is continuously striving to improve the way it operates and the following actions have been identified to further enhance the service:

    - Implement the changes required for the shared service itself updating procedures as appropriate.
    - Review how to maximise the effectiveness of audits using technology and implement continuous auditing.
    - Establish how the service can place reliance on other sources of assurance.
    - Continue to update monitoring and reporting procedures.
    - Improved promotion of the service to provide managers and individuals with more information about the audit service and the audit process itself.
    - Developing good relationships with managers in Darlington and the Combined Authority.
    - The service will be the subject of an external peer review during the year in accordance with Public Sector Internal Audit Standards.

FINANCIAL AND LEGAL IMPLICATIONS

16. None

RISK ASSESSMENT

17. The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

CONSULTATION

18. Not Applicable

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Appendix A

Internal Audit Charter

Introduction

This document will outline how the internal audit service to Stockton-on-Tees Borough Council, Darlington Borough Council and the Tees Valley Combined Authority will be delivered to ensure it is compliant with the relevant standards and statutory requirements currently in place.

Purpose of the Service

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Authority to Undertake the Function

Each authority is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

This requirement is set out in the Accounts & Audit Regulations 2015. The regulations also state that any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit make available such documents/records and supply such information/explanations as are considered necessary by those conducting the internal audit.

Internal Audit's Responsibilities

The service will be delivered in accordance with the purpose outlined above and by ensuring it:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focussed
- Promotes organisational improvement

The service will ensure it complies with the IIA International Standards for Internal Audit by adopting the Public Sector Internal Audit Standards.

For the purposes of applying these standards "the board" are represented by the Audit and Governance Committee through the scheme of delegation in place within each authority. "Senior

Management” is the Head of Paid Service, Section 151 Officer & Monitoring Officer who undertake statutory functions. Each authority will have senior management teams, which will include each of these officers. The service will report the results of audit work individually to each relevant member of this senior management team.

The service will report the findings of its work to the board and to senior management a minimum of 4 times per year. Where there is any attempt to apply undue influence on the findings of its work the service will seek to make either senior management or the board aware of any such attempts and reserves the right to report without prejudice to any member of the board or senior management.

Recommendations will be made where it is considered the control environment could be improved. This could either be addressing a particular weakness or identifying efficiencies/improvements within processes.

Functionally the service will be based within Stockton-on-Tees Borough Council in the Finance and Business Services Department. The “Chief Audit Executive (CAE)” role as specified by the standards is undertaken by the Audit & Risk Manager. An annual report will be produced giving and overall audit opinion of the control environment to be used as part of the assurance gathering process for the annual governance statement in each authority.

Day-to-day line management for the service will be provided by the Procurement and Governance Manager with the Finance and Business Services Department of Stockton-on-Tees Borough Council.

In order to maintain the actual or perceived independence of the function, where audit work is to be conducted on any function where the Procurement and Governance Manager have operational responsibility, the Audit & Risk Manager has the right to agree the scope of/report findings of this work to any member of senior management. The Audit & Risk Manager has a responsibility to report any attempt to unduly influence/interfere with the scope or outcome of this audit work to relevant members of senior management/the board.

The service will conform to a code of ethics. Annually auditors will sign a declaration that they will conform to a code of ethics that addresses:

- Integrity
- Objectivity
- Competence
- Confidentiality
- Conflicts of Interest

Failure to abide by this code will result in action being taken against individuals through either the Council’s disciplinary process, professional disciplinary process or a combination of both.

An opinion will be provided on the entire control environment each year, one for each authority by 30 June. Frequency and scope of testing will be determined by an audit risk assessment, which will be kept up to date. A plan of work will be agreed with the board and senior management, which is considered sufficient to enable this opinion to be given.

In addition to auditing the control environment, the service has a role in preventing, detecting and investigating possible fraudulent or corrupt activity. It is a requirement that the service will be made aware of any such activity either suspected or proven. In addition to this, audit testing will be conducted on the basis that fraud and corruption is a risk within any system and auditors will be aware of the potential for this to be taking place.

Because of the breadth of skills and knowledge possessed by auditors, the service may be approached to provide advice and guidance to managers outside of the normal audit process. Any such consultancy engagement will be managed appropriately and will only be undertaken where the agreed scope of the engagement is consistent with the purpose of the service and where the requisite skills are available. Such assignments will be added to the audit plan.

The service will ensure it has sufficient resources to deliver a risk based audit plan with adequate coverage to enable an overall opinion to be given. A competency framework will be maintained to ensure auditors have the required skills to deliver the plan. Auditors will be assessed against this framework as part of the annual appraisal process. In addition, to ensure auditor's skills remain current they will be required to undertake Continual Professional Development (CPD). Where it is believed there will be insufficient resources (either in terms of capacity or in terms of competence) this will be brought to the attention of the board through the Audit and Governance Committee.

Delivery of the Service

An audit portfolio will be maintained which will encompass the entire control environment of the authority. The portfolio will be kept up to date with consultation taking place with senior management on a regular basis.

Each audit in the portfolio will be risk assessed to determine frequency and priority of audit work. The risk assessment will be kept up to date and as risk changes the plan will be amended to reflect the changing risk. The service will utilise continuous monitoring techniques as part of the risk assessment process, which, will incorporate feedback from a number of sources. This approach will include schools where the primary source of feedback will be the Schools Financial Value Standard Self-Assessment returns and where applicable the schools risk action groups.

Before presenting the plan to the board for agreement managers within each authority will be consulted on the content of the plan to ensure the work will meet the needs of the authority. The plan will be presented to the board before the 31 March in each financial year.

The scope of each audit review will be risk assessed to ensure the coverage is appropriate.

A manual will be maintained which will document the audit process, the way in which results of audit work will be presented (this will be subject to consultation with senior management/the board) and the standard of working papers required to support the audit opinion.

The service will maintain an intranet page in each Council which will include basic contact details and any other relevant information.

Monitoring the Service

A Quality Assurance and Improvement Programme (QAIP) will be developed, updated annually and will be presented to the board for agreement prior to 31 March each year.

The QAIP will detail:

- Performance measures for assessing the service
- Complaints procedure
- Process for reviewing compliance with the Standards.

Regular reports will be presented to the board on the outcomes of the QAIP

Appendix B

Tees Valley Combined Authority – Internal Audit Plan 2018-2023

Audits	Risk Rating	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Absence Management	3.6	✓	✓	✓	✓	✓
Active Directory	0.6	✓	✓	✓	✓	✓
Anti-Fraud Management	15.2	✓	✓	✓	✓	✓
Bank Reconciliation	17.6	✓	✓	✓	✓	✓
Business Continuity & Emergency Planning	15.0	✓	✓	✓	✓	✓
Change Control	2.4	✓	✓	✓	✓	✓
Cloud Computing	4.0	✓	✓	✓	✓	✓
Creditors	7.0	✓	✓	✓	✓	✓
Data Protection	8.4		✓		✓	
Debtors	6.2	✓	✓	✓	✓	✓
Declaration of Interests/Gifts & Hospitality	0.7		✓			
Desktop Management	0.6			✓		
Environmental Controls	0.6				✓	
Financial Management	15.4	✓	✓	✓	✓	✓
Firewalls	0.4	✓	✓	✓	✓	✓
Freedom of Information	6.0				✓	
Hardware Controls	0.0	✓				✓
Health & Safety	5.6			✓		
ICT Backup & Recovery / Disaster Recovery	0.6			✓		
ICT Project Management	1.6	✓				✓
Information Management	16.0	✓	✓	✓	✓	✓
Insurance	7.2				✓	
Internet	1.3				✓	

Network Management	3.4	✓				✓
Officer Payments - Mileage	3.1	✓	✓	✓	✓	✓
Officer's Travel & Subsistence	1.0				✓	
Outlook/Email	0.8				✓	
Pension Payments/Early Retirement	9.0	✓		✓		✓
Performance Management Framework	15.0	✓	✓	✓	✓	✓
Recruitment Services	5.4	✓	✓	✓	✓	✓
Remote Access	0.6	✓				✓
Scheme of Delegation	4.2		✓			
Server Operating Systems	1.0	✓	✓	✓	✓	✓
Software Controls	1.7		✓			
Treasury Management	3.2	✓	✓	✓	✓	✓
VAT	4.8	✓	✓	✓	✓	✓
Virtualisation	1.0	✓	✓	✓	✓	✓
Website & Intranet	0.6				✓	
Payroll & Absence Recording	6.7	✓	✓	✓	✓	✓
Investment Fund Management	17.2	✓	✓	✓	✓	✓
Concessionary Travel Scheme	10.6	✓			✓	
Total Number of Audits		27	25	25	30	26

Appendix C

Internal Audit Quality Assurance and Improvement Process

Understanding the Purpose of Internal Audit

The requirement to have an internal audit function is set out in the accounts and audit regulations 2015. They state:

> "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

The proper practices referred to are the Public Sector Internal Auditing Standards (PSIAS) and they have applied the following definition:

> "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

These requirements can be broken down into the following three areas:

- Adding Value & Improving Operations
- Adequate Coverage of all Risk Management, Control and Governance Processes (i.e. the system of internal control)
- Processes that are Systematic and Disciplined

In order to ensure the service is able to achieve these requirements we need to ensure our people are managed effectively.

The service has developed a balanced scorecard which is supported by an action plan to measure and monitor our achievement of these objectives.

Internal Audit Balanced Scorecard

Stewardship - Adequate Coverage

- Portfolio reviewed including senior management by 31 December
- Plan of audit work for the financial year agreed by 31 March
- Annual report produced by 30 June giving an independent audit opinion supported by sufficient, reliable, relevant and useful information.
- Percentage of audit portfolio covered in year. Target 45%.
- Anti-Fraud and Corruption Strategy reviewed annually and published by 30 June.
- NFI matches reviewed. High Priority - 3 Months, Remainder - 9 Months
- Performance updates presented at each Audit Committee meeting

Stakeholders - Add Value and Improve

- Portfolio reviewed including senior management by 31 December
- Plan of audit work and Audit Charter for the financial year agreed by 31 March
- Overall satisfaction rating. Target 90%
- Time to issue draft report following completion of fieldwork. Target 14 Days
- Time to issue final report following client response. Target 3 Days
- 3* and 4* recommendations implemented by original due date. Target 90%
- Cost of assurance audits completed within 15% of budget time. Target 90%

Purpose - To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

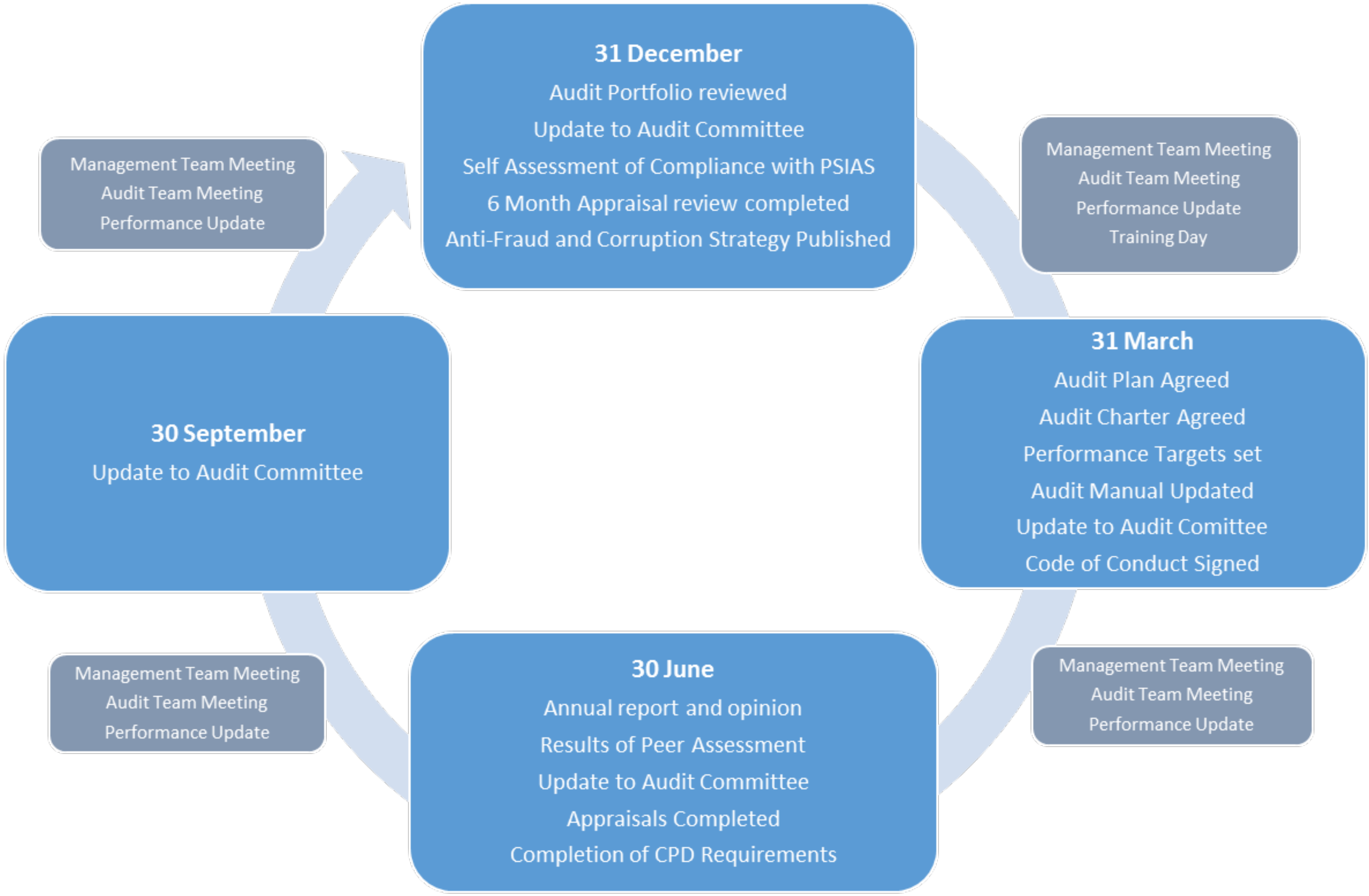
Process

- Assessed as complying with the Public Sector Internal Audit Standards by a group of peers
- Management of the audit process, number of audits released for review prior to planned release date. Target 90%
- Management meetings undertaken at least every 2 months.
- Audit manual reviewed and updated by the 31 March each year.
- Accuracy of final reports, number of final reports needing to be re-issued. Target < 5

People

- Completion of CPD requirements. Target 100% of staff with a minimumm of 20 Hrs.
- Annual training day delivered by 31 December
- Audit team meetings held at least every 2 months
- Appraisals undertaken by 30 June with a 6 month review
- 100% of auditors agree to abide by the auditor code of conduct
- Time lost to sickness/vacancies. Target 23 days

Internal Audit Assurance Cycle



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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 9

REPORT TO THE TEES VALLEY AUDIT & GOVERNANCE COMMITTEE

28th FEBRUARY 2018

REPORT OF FINANCE DIRECTOR

TREASURY MANAGEMENT STRATEGY 2018/19

SUMMARY

This report informs Members of the proposed 2018/19 Treasury Management Strategy (TMS) for Tees Valley Combined Authority.

RECOMMENDATIONS

Members note the Treasury Management Strategy as presented in the report and provide any comments and recommendations before approval at Cabinet.

Introduction

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in February and August last year and published its new 2017 editions in early 2018.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

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 are therefore central to the Authority's treasury management strategy.

Revised strategy: In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance.

External Context

Economic background: The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remains relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. However, this effect is expected to fall out of year-on-year inflation measures during 2018, removing pressure on the Bank of England to raise interest rates.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook: High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix A***.

Local Context

On 31st December 2017, the Authority had £97m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £m	**31.3.18 Estimate £m**	**31.3.19 Forecast £m**	**31.3.20 Forecast £m**	**31.3.21 Forecast £m**
General Fund CFR	0	0	0	0	0
Total CFR	**0**	**0**	**0**	**0**	**0**
Less: Other debt liabilities	0	0	0	0	0
Borrowing CFR	**0**	**0**	**0**	**0**	**0**
Less: Usable reserves	87,316	94,465	72,369	79,191	102,203
Less: Working capital	-9,258	-7,107	-5,829	-4,361	-4,245
Investments	**78,058**	**87,358**	**66,540**	**74,830**	**97,958**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. If there are any changes to this position then further reports will be presented to Cabinet.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2018/19.

Borrowing Strategy

The primary legislation which established Combined Authorities made provision for them to receive borrowing powers, akin to those already in place for other local authorities. In the 2016 Budget, the Chancellor of the Exchequer confirmed his intention to enact this provision using secondary legislation. A draft of the 'The Tees Valley Combined Authority (Borrowing) Regulations 2018' Statutory Instrument was laid before **and approved** by a resolution of each House of Parliament at the end of 2017.

The balance sheet forecast in table 1 shows that the Authority does not expected to borrow in 2018/19 but has approved a borrowing commitment of £6.5m in relation to the TAMP scheme. As noted on the Investment Update report presented to Cabinet on the 21st December borrowing is not required until 2021.

The authority currently has an active pipeline of 31 investment proposals amounting to £152m which are currently under review. If borrowing is required for any of these schemes further reports will be presented to Cabinet for consideration.

The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £100 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans, change is a secondary objective.

Strategy: The Authority's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of any future debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Teesside Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority when borrowing will investigate all available sources of finance, such as local authority loans and bank loans, to achieve the most favourable rates.

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 7 months, the Authority's investment balance has ranged between £78m and £131 million, and levels are expected to increase in the forthcoming year as spending plans are developed.

Objectives: Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the **security and liquidity** of its investments before seeking the highest 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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and low returns from short-term unsecured bank investments, the **Authority aims to diversify into more secure and/or higher yielding asset classes during 2018/19**. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, with local authorities and money market funds. This diversification will represent a **substantial change in strategy** over the coming year.

Approved counterparties: If the strategy is approved the Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 10 years	n/a	n/a
AAA	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA+	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA	£7,500,000 4 years	£15,000,000 5 years	£15,000,000 10 years	£7,500,000 5 years	£7,500,000 10 years
AA-	£7,500,000	£15,000,000	£15,000,000	£7,500,000	£7,500,000

	3 years	4 years	10 years	4 years	10 years
A+	£7,500,000 2 years	£15,000,000 3 years	£7,500,000 5 years	£7,500,000 3 years	£7,500,000 5 years
A	£7,500,000 13 months	£15,000,000 2 years	£7,500,000 5 years	£7,500,000 2 years	£7,500,000 5 years
A-	£7,500,000 6 months	£15,000,000 13 months	£7,500,000 5 years	£7,500,000 13 months	£7,500,000 5 years
None	n/a	n/a	£15,000,000 10 years	£5,000,000 5 years	£7,500,000 5 years
Pooled funds	£15m per fund				

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £5m per company as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £15m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, Combined Authority, Police and Crime Commissioner, Fire Authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-specified investment limits

	Cash limit
Total long-term investments	£60m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£40m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£0m
Total non-specified investments	£100m

Investment limits: The Authority's revenue reserves available to cover investment losses will be set at £692,000 on 31st March 2018. The maximum that will be lent to any one organisation (other than the UK Government) will be £15 million Based on table 4 below. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£15,000,000
UK Central Government	unlimited
Any group of organisations under the same ownership	£15,000,000
Any group of pooled funds under the same management	£37,500,000
Negotiable instruments held in a broker's nominee account	£37,500,000
Foreign countries	£15,000,000
Registered providers	£37,500,000
Unsecured investments with building societies	£15,000,000
Loans to unrated corporates	£15,000,000
Money Market Funds	£75,000,000

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses through the **new business finance facility**, or as equity investments.

Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

Investments that are not part of Treasury Management Activity

Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.

The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Authority will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

Treasury Management Indicators

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

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk:

	2018/19	**2019/20**	**2020/21**
Upper limit on fixed interest rate exposure	£20m	£20m	£20m
Upper limit on variable interest rate exposure	£20m	£20m	£20m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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 fixed rate borrowing will be:

	Upper	**Lower**
Under 12 months	25%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days: 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 will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£60m	£40m	£20m

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on the use of financial derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Investment training: The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, or other appropriate organisations.

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

Investment of money borrowed in advance of need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £100 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

The budget for investment income in 2018/19 is £200,000 based on an average investment portfolio of £90 million. As the Authority is not expected to enter into any borrowing arrangements in 2018/19 the budget for debt interest is £0 million. If actual levels of investments and borrowing differ from those forecast, performance against budget will be correspondingly different.

Prudential Indicators and Minimum Revenue Provision (MRP)

The Authority has also regulatory requirements with regards to the publishing of prudential indicators and the MRP Statement. These are attached at ***Appendix C***.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Finance Director believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
Arlingclose Central Case	**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**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
Arlingclose Central Case	**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**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Appendix B – Existing Investment Portfolio Position

Counterparty	Amount £	Rate %	Start Date	Maturity Date
Bank Of Scotland	5,000,000	0.50%	06-Dec-17	06-Mar-18
Bank of Scotland	5,000,000	0.36%	06-Oct-17	06-Apr-18
Coventry BS	5,000,000	0.44%	11-Oct-17	11-Apr-18
Goldman Sachs	5,000,000	0.38%	29-Dec-17	06-Apr-18
Santander	10,000,000	0.40%	12-Oct-16	95 Day Notice
Standard Life	10,000,000	Variable	06-Oct-16	Money Market Fund
Federated	10,000,000	Variable	06-Oct-16	Money Market Fund
Blackrock	4,000,000	Variable	07-Dec-16	Money Market Fund
Blackpool BC	3,000,000	0.27%	11-Sep-17	11-Jan-18
Leeds	5,000,000	0.40%	19-Oct-17	19-Apr-18
Newham	5,000,000	0.30%	30-Oct-17	29-Mar-18
Northamptonshire	5,000,000	0.55%	05-Oct-17	05-Jul-18
Slough	5,000,000	0.38%	28-Sep-17	28-Feb-18
Stirling	3,000,000	0.50%	23-Nov-17	23-May-18
Suffolk County	5,000,000	0.45%	05-Dec-17	05-Mar-18
Surrey Heath	2,000,000	0.50%	22-Nov-17	22-May-18
Merthyr Tidfil	5,000,000	0.50%	22-Dec-17	23-Apr-18
Telford & Wrekin	5,000,000	0.27%	07-Sep-17	08-Jan-18
	97,000,000	**0.41%**		

Appendix C - Prudential Indicators 2018/19

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Business Growth	6,989	1,500	1,750	1,750
Research, Development, Innovation & Energy	6,600	13,400	9,000	0
Education, Employment & Skills	4,288	5,332	0	0
Transport	19,866	18,877	16,352	13,952
Infrastructure	4,883	0	0	0
Development & Evaluation	6,883	0	0	0
Total Expenditure	**49,509**	**39,109**	**27,102**	**15,702**
Government Grants	49,509	39,109	27,102	15,702
Reserves	0	0	0	0
Revenue	0	0	0	0
Borrowing	0	0	0	0
Total Financing	**49,509**	**39,109**	**27,102**	**15,702**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
General Fund	0	0	0	0
Total CFR	**0**	**0**	**0**	**0**

The CFR is forecast to remain at £0 over the next three years as capital expenditure is fully financed through grants.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.18 Revised £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
Borrowing	0	0	0	0
Finance leases	0	0	0	0
PFI liabilities	0	0	0	0
Transferred debt	0	0	0	0
Total Debt	**0**	**0**	**0**	**0**

As all current planned capital expenditure is fully financed total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Borrowing	0	75	75	75
Other long-term liabilities	0	0	0	0
Total Debt	**0**	**75**	**75**	**75**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2017/18 Limit £m**	**2018/19 Limit £m**	**2019/20 Limit £m**	**2020/21 Limit £m**
Borrowing	10	100	100	100
Other long-term liabilities	0	**0**	0	0
Total Debt	**10**	**100**	**100**	**100**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	0	0	0	0

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition*. It fully complies with the Codes recommendations.

FINANCIAL IMPLICATIONS

1. Treasury Management Investment activity during 2018/19 is budgeted to generated income of £200k.

RECOMMENDATIONS

2. Members note the content of the report and provide any comments and recommendations to Cabinet.

LEGAL IMPLICATIONS

3. None.

RISK ASSESSMENT

4. This Treasury Management Strategy annual report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

5. Not applicable.

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TEES VALLEY COMBINED AUTHORITY
TREASURY MANAGEMENT PRACTICES

The “**Treasury Management in the Public Services: Code of Practice and cross sectoral guidance notes “**(the Code) identifies twelve areas where statements of Treasury Management Practices (TMP’s) should be developed to implement the full requirements of the Code.

TMP1 TREASURY RISK MANAGEMENT

"The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements.* In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document."

[1] Credit and counter party risk management

The Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment. It will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved Instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivate arrangements.

[2] Liquidity risk management

The Authority will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives.

This authority will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme, where it is under borrowed or to finance future debt maturities.

[3] Interest rate risk management

The Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

[4] Exchange rate risk management

The Authority will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.
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[5] Refinancing risk management

The Authority will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counter parties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above."

[6] Legal and regulatory risk management

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counter party policy under *TMP1.1 Credit and counter party risk management*, it will ensure that there is evidence of counter parties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation."

[7] Fraud, error and corruption, and contingency management

The Authority will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

[8] Price risk management

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

[9] Inflation risk

The Authority will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation’s inflation exposures.

TMP2 BEST VALUE AND PERFORMANCE MEASUREMENT

The Authority is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document."

TMP3 DECISION MAKING AND ANALYSIS

The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document."

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Authority will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in *TMP1 Risk management*.

The Authority has reviewed its classification with financial institutions under MIFID II and has registered as a professional client with relevant organisations.

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Authority considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when The Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on treasury management.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Authority will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The Authority (i.e. full Board) will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation’s treasury management policy statement and TMPs.

The board will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

The authority should report the treasury management indicators as detailed in their sector specific guidance notes.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare, and The Authority will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matter to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *TMP1 Risk management, TMP2 Best value and performance measurement, and TMP4 Approved instruments, methods and techniques*. The form which The Authority's budget will take is set out in the schedule to this document. The responsible officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with *TMP6 Reporting requirements and management information arrangements*.

The Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of The Authority's accounts is set out in the schedule to this document.

The Authority will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of The Authority will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with *TMP1[2] Liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

The Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counter parties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

TMP10 STAFF TRAINING AND QUALIFICATIONS

The Authority recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

The Authority recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review, and it will ensure, where feasible and necessary, that a spread of service providers is used to avoid over-reliance on one or a small number of companies.

Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

The Authority has a formal contract with Arlingclose Ltd, to provide a range of technical advice and information covering the treasury business.

TMP12 CORPORATE GOVERNANCE

The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honest, integrity and accountability.

The Authority had adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by The Authority.

TMP1 RISK MANAGEMENT

1.1 LIQUIDITY

1.1.1 Cash Flow

The treasury management section will maintain, on a daily basis, a cash flow projection showing;

- all known income and expenditure
- all anticipated income and expenditure.

This record will be maintained for a minimum period of 12 months ahead of current date.

1.1.2 Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to ensure that funds held in the Authority's main bank account at the close of each working day are only those required for cash flow purposes, in order to minimise the amount of bank overdraft interest payable, and maximise the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim. However detailed contingency plans are also available to allow overdraft facilities of up to £.0.25m. .

1.2 INTEREST RATE

1.2.1 Interest Estimates

- The treasury management section will maintain detailed forward projections showing estimates of the amount of interest to be received (from approved instruments) and of interest paid (from long term borrowings).

- Interest rate estimates shall be arrived at using market intelligence, derived from reputable city institutions, together with practical experience and knowledge of treasury management staff.

1.2.2 Maximum proportion of variable rate debt/interest

The requirement to set out a series of Prudential Indicators includes a requirement to set upper limits for exposure to fixed interest rates and variable interest rates. Details can be located in the annual Treasury Management Strategy.

Policies concerning the use of financial derivatives for interest rate management

Stockton Council is not permitted to use financial derivatives for interest rate management.

1.3 EXCHANGE RATE

1.3.1 Approved criteria for managing changes in exchange rate levels

a) As a result of the nature of the Organisation's business, the Organisation may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Organisation will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Organisation will eliminate all foreign exchange exposures as soon as they are identified.

b) Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Organisation has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

c) Stockton Council has no exposure to currencies other than sterling.

d) Stockton Council is not permitted to use financial derivatives in exchange rate risk management.

1.4 CREDIT AND COUNTERPARTY POLICIES

1.4.1 Criteria to be used for creating/managing approved counter party lists/limits

1. The Director of Finance will formulate suitable criteria for assessing and monitoring the credit risk of investment counter parties and shall construct a lending list comprising time, type, sector and specific counter party limits.

2. Treasury management staff will add or delete counter parties to/from the approved counter party list in line with the policy on criteria for selection of counter parties. This will be one on the approval of the Director of Finance. The complete list of approved counter parties will be included in the Treasury Management Strategy, Mid Term Report and Annual Report.

3. The primary criteria used in the selection of counter parties is their credit worthiness. However the authority will also monitor latest market information and reduce the limits imposed on third parties where appropriate.

4. The Authority’s Treasury Management Advisors provide a regular update of all the ratings relevant to the authority as well as any changes to the counterparty credit ratings. This information is also available via their website.

5. Credit ratings will be used as supplied from one or more of the following credit rating agencies:-

   Fitch
   Standard & Poor's
   Moody's Investors Services

6. Limits will be as set within the annual Treasury Management Strategy reported to the Board.

1.4.2 Approved methodology for changing limits and adding/removing counter parties

Credit ratings for individual counter parties can change at any time. The Director of Finance is responsible for applying the stated credit rating criteria in the Treasury Management Strategy for selecting approved counter parties, and will add or delete counter parties as appropriate to/from the approved counter party list when there is a change in the credit ratings of individual counter parties or in banking structures e.g. on mergers or takeovers.

The Director of Finance will also adjust lending limits and periods when there is a change in the credit ratings of individual counter parties or in banking structures e.g. on mergers or takeovers in accordance with the criteria in 1.4.1.

1.5 REFINANCING

The Prudential Code requires that:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next three financial years”.

To that end the Authority will set annual prudential indicators and then proceed to operate within those boundaries, thus showing that all decisions taken adhere to the above.

Other Considerations;

- A maturity profile should be prepared and maintained covering all the authority's long-term borrowings.

- All refinancing of loans should be at the discretion of the Director of Finance.

- Any premature repayment or refinancing of existing loans may have a premium attached, which may have a revenue impact. Any such transactions will be at the discretion of the Director of Finance.

1.6 LEGAL AND REGULATORY

1.6.1 References to relevant statutes and regulations

The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Authority.

1.6.2 Procedures for evidencing the organisation's powers/authorities to counter parties

The Council will prepare, adopt, and maintain, as the cornerstone for effective treasury management:-

a) A Treasury Management Strategy, stating the overriding principles and objectives of its treasury management activities; and

b) The Annual Investment Strategy.

1.6.3 Required information from counter parties concerning their powers/authorities

The authority will contract with 3rd parties who are approved institutions under the Local Government and Housing Act 1989.

Approved brokers will need to be regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Conduct Authority under the provisions of the Financial Services and Markets Act 2000.

1.6.4 Statement on the organisation’s political legislative or regulatory risks

The Authority recognises that future political, legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

1.7 FRAUD, ERROR AND CORRUPTION

1.7.1 Details of systems and procedures to be followed

The processes involved in the treasury management functions should be clearly documented as set out in *TMP3 Decision making and analysis and in TMP 5 Organisation, clarity and segregation of responsibilities and dealing arrangements.*

1.7.2 Emergency and contingency planning arrangements

The authority will follow the manual system to place funds in the event of an electronic system failure.

1.7.3 Insurance cover details

The officers concerned in the treasury management function are covered by appropriate fidelity guarantee insurance.

1.7.4 List of authorised officers

The treasury manager shall maintain a list of officers authorised to deal on behalf of Tees Valley Combined Authority in respect of investing short-term cash balances.

1.7.5 Chaps transactions

The purchasing, payments and income manager shall authorise officers to have access to the Nat West Web Banking System and shall determine which functions each officer can carry out. Only those officers so authorised can transmit money via the Chaps system, using unique passwords.

1.8 MARKET RISK MANAGEMENT

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sum it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 BEST VALUE AND PERFORMANCE MEASUREMENT

2.1 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

In evaluating treasury management options, the average interest rate for both borrowing and investments is considered.

2.2 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT CONTRACTS

2.2.1 Banking services

Banking services will be retendered or renegotiated every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.2 Money-broking services

- The Authority will use money-broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

2.2.3 Consultants'/advisers' services

- The Authority's policy is to use the advice provided by appointed full-time professional treasury management consultants, to the authority.
- Consultancy services are retendered or renegotiated every 3 years.

2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES

Benchmarking tests are detailed below are used in the performance evaluation.

2.4 BENCHMARK AND CALCULATION METHODOLOGY

Performance measured against Annual Treasury Management Strategy targets.

2.4.1 Debt management

Average rate on all external debt
Average maturity of external debt

2.4.2 Investment

The performance of in house investment earnings will be measured against 7 day LIBID, (London Inter-Bank Bid Rate)

TMP3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING AND NEW INSTRUMENTS/ TECHNIQUES

3.1.1 Records to be kept

The following records will be kept and maintained for audit scrutiny:

a) Third party confirmation and brokers confirmation of deposits and borrowings.
b) Copy of electronic submission of payments, manually signed as checked for accuracy and authorised.
c) Cash flow transaction records
d) Borrowing Analysis
e) Year-end reconciliation of all borrowing and lending.

3.1.2 Processes to be pursued

a) Cash flow analysis.
b) Maturity analysis.
c) Ledger reconciliations
d) Review of borrowing requirement.
e) Comparison with prudential indicators.
f) Monitoring of projected loan charges and interest and expenses costs.
g) Review of opportunities for debt rescheduling.

3.1.3 Issues to be addressed

3.1.3.1 In respect of every decision made the organisation will:

a) Above all be clear about the nature and extent of the risks to which the organisation may become exposed.
b) Be certain about the legality of the decision reached and the nature of the transaction and that all authorities to proceed have been obtained.
c) Be content that the documentation is adequate both to deliver the organisation’s objectives and protect the organisation’s interests and to deliver good housekeeping.
d) Ensure that third parties are judged satisfactory in the context of the organisation’s creditworthiness policies, and that limits have not been exceeded.
e) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the organisation will:

a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.

b) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
c) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
d) Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets.

In respect of investment decisions, the organisation will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the organisation's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing;
- the use of external fund managers;
- managing the underlying exchange rate risk associated with the organisation's business activities.

4.2 APPROVED INSTRUMENTS FOR INVESTMENT

Instruments approved under The Local Authority (Capital Finance) (Approved Investments) Regulations 1990 and subsequent amendments, the most commonly used being:

- Deposits with banks and building Societies or local authorities up to 365 days
- Non-specified deposits with banks and building societies or local authorities.
- Pooled Funds (including Triple A rated Money Market Funds both with a constant and variable net asset value).
- Registered Provides (including providers of social housing).
- Deposits with Government (including HM Treasury, Debt Management Office and Local Authorities).

4.3 APPROVED METHODS AND SOURCES OR RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the council has a number of approved methods and sources of raising capital finance.

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Director of Finance.

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director of Finance has delegated powers through this policy and the strategy to take the most appropriate form of borrowing from the approved sources.

4.4 INVESTMENTS THAT ARE NOT PART OF THE TREASURY MANAGEMENT ACTIVITY

Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.

The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Authority will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
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TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

INDEX OF SCHEDULES

5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/EXECUTIVE LEVELS

5.1.1 Delegation of Powers

a) Board

- The limits required by Housing & Finance Act 1989
- Approval of Treasury Management Policy Statement
- Approval of Treasury Management Strategy
- Approval of Annual and Mid Term Reports

b) Stockton Council

- Stockton Council (SBC) is authorised under delegated powers to undertake Treasury Management Functions on behalf of Tees Valley Combined Authority.
- Segregation of duties detailed below are as per SBC processes

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

The Director of Finance will ensure there is always adequate segregation of duties in all transactions, with a minimum of 2 officers required to make payments and appropriate senior officers to release payments.

5.3 TREASURY MANAGEMENT ORGANISATION CHART

Director of Finance (TVCA)

Senior Finance Managers (SBC)

Chief Accountant/Treasury Manager (SBC)

Senior Finance Technicians (Treasury Management) (SBC)

5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1 Director of Finance

1. Director of Finance:

   a) Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly and monitor compliance
   b) Submit reports as and when required by the Board
   c) Authorise and maintain TMPs and Schedules
   d) Set submit and monitor budgets
   e) Review the performance of the treasury management function and promote best value reviews
   f) Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function

g) Ensure the adequacy of internal audit and liaise with external audit
h) Recommend the appointment of external service providers where appropriate.
i) Approve and authorise investment deals (within dealing limits – see 5.6)
j) Determine and approve short term borrowing up to a period of 6 months and to a limit of £5m

2. The Director of Finance has delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.

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3. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director of Finance to be satisfied, by reference to Legal and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations.

4. Director of Finance may delegate power to borrow and invest to members of staff to conduct all dealing transactions. All transactions must be authorised by at least two specified named officers. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

5.4.2 Senior Finance Managers (SBC).

1. Approve and authorise investment deals (within dealing limits – see 5.6)
2. Release Chaps payments

5.4.3 Chief Accountant/Treasury Manager (SBC)

The treasury responsibilities of this post will be:-

- To assist Director of Finance in the formation of the Treasury Strategy.
- Identify and recommend opportunities for improved practices
- Supervise Treasury Management staff
- Monitor performance
- Review the performance of treasury management functions and promote best value reviews
- Implement Treasury Management Strategy
- Approve and authorise investment deals (within dealing limits – see 5.6)
- Check interest calculations
- Arrange rescheduling or premature repayment of existing borrowings.

5.4.4 Senior Finance Technician (SBC)

Responsibilities:-

- Calculate daily cash balances
- Enter transmission of monies via Nat West Web Banking system

- Select Brokers from approved list
- Adhere to agreed policies and practices on a day to day basis
- Submit management information reports
- Maintain cash flow projections
- Third party loan confirmation
- Ensure counter party limits are not exceeded
- Ensure there is a clear segregation between officers for negotiating/ approving and closing deals.

5.5 ABSENCE COVER ARRANGEMENTS

The authority will ensure that there is adequate cover for all absences.

5.6 DEALING LIMITS

Dealings can be carried out providing that transactions are within limits determined by the Authority and the Director OF Finance as detailed in the table below;

Investment Dealing Limits	
Director of Finance (TVCA)	As per limits set within the treasury management strategy
Senior Finance Mangers (SBC)	Monetary Limits set within TMS / 365 days and under investment horizon
Chief Accountant / Treasury Manager (SBC)	Up to £5m / 6 months and under investment horizon.

5.7 LIST OF APPROVED BROKERS/ONLINE BROKER

Prebon Brokers (UK) plc
BGC International Brokers Ltd
ICAP Brokers Ltd
Tradition Brokers
Martin Brokers
I Deal Trade (Arlingclose Trading Platform)

5.8 POLICY ON BROKERS' SERVICES

The authority will use brokers for its temporary transactions. The Treasury Manager will evaluate the services provided by Brokers.

5.9 POLICY ON TAPING OF CONVERSATIONS

The authority will not tape telephone conversations

5.10 DIRECT DEALING PRACTICES

All deals are carried out with brokers / I trade Platform with the exception of Bank of England and Nat West overnight deposit account.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

All payments and repayments resulting from the treasury management function will be made via the authority's bank account using the electronic payment facility (with Nat West Web Banking system). Only authorised officers can transmit, approve or release payments, protected by appropriate passwords and card operated pin number. A manual back up facility will be in place to cover system failure.

5.12 DOCUMENTATION REQUIREMENTS

Cash Dealing sheet
Cashflow summary
Loan Record
Dealing sheet
Brokers confirmation
Counter party confirmation
Invoice signed/coded to budget
Nat West Bankline confirmation sheet

5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS

The authority does not manage funds on behalf of any third parties.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT

1. The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted to the Board before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates.

3. The Treasury Management Strategy is concerned with the following elements:

    - the prospects for interest rates;
    - the limits placed by The Authority on treasury activities
    - the expected borrowing strategy;
    - the expected temporary investment strategy;
    - the expectations for debt rescheduling;
    - any extraordinary treasury issue.

4. The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.2 POLICY ON INTEREST RATE EXPOSURE

1. As required by section 45 of The Local Government and Housing Act 1989, the council must approve before the beginning of each financial year the following treasury limits:

    - The overall borrowing limit
    - The amount of the overall borrowing limit which may be outstanding by way of short-term borrowing
    - The maximum proportion of interest on borrowing, which is subject to variable rate interest.

2. The Corporate Director of Resources is responsible for incorporating these limits into the annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Corporate Director of Resources shall submit the changes to Cabinet for recommendation to Council.

6.3 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be completed after the end of the financial year. This report will include the following:-

a) details of the previous year's treasury management activities
b) the outcome against agreed measures of performance
c) resources involved in carrying out treasury management functions
d) report on compliance with CIPFA code
e) explanation of future actions.

6.4 MANAGEMENT INFORMATION REPORTS

a) A mid-year review of the strategy statement
b) Any variations to the agreed Treasury Management policies and practices will be reported to the Council at the earliest practicable meeting.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in England and Wales that is recognised by statute as representing proper accounting practices.

7.2 ACCOUNTING PRACTICES AND STANDARDS

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in England and Wales. The Council adopts in full the principles set out in CIPFA's 'Code of Best Practice and Guide for Treasury Management in the Public Services' (the 'CIPFA Code and Guide'), together with those of its specific recommendations that are relevant to this organisation's treasury management activities.

7.3 AUDIT ARRANGEMENTS

TVCA will ensure that its audits and those charged with regulatory review have access to all information and papers supporting the activities of the treasury management function.

TMP8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS, CONTENT AND FREQUENCY

The authority will monitor and complete daily cashflow forecasts for major items of income and expenditure. Additionally, a strategic cashflow forecast will be prepared annually and updated as necessary.

8.2 BANK STATEMENTS PROCEDURE

The authority will aim to monitor and reconcile the bank statements on a daily basis, with a monthly formal reconciliation completed and authorised by two officers.

8.3 PROCEDURES FOR BANKING OF FUNDS

All money received by an officer on behalf of the Authority will without unreasonable delay be paid into the Authority's bank account. Regular security collection rounds will bank all funds.

TMP9 MONEY LAUNDERING

9.1 PROCEDURES FOR ESTABLISHING IDENTITY/AUTHENTICITY OF LENDERS

The Authority will only accept loans from individuals, where the funds are transferred via another bank account, which is domiciled in the UK, either electronically, or through cheque. All other loans are obtained from the PWLB or from authorised institutions under the Banking Act 1987. The Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website on (www.fca.org.uk).

9.2 METHODOLOTY FOR IDENTIFYING SOURCES OF DEPOSIT

All deposits are reconciled and identified on a daily basis. The source of each deposit is investigated in order to credit the appropriate funds within the main accounting system.

TMP10 STAFF TRAINING AND QUALIFICATIONS

10.1 DETAILS OF APPROVED TRAINING COURSES

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post (as per the job description). All staff are required to undertake basic training prior to undertaking day to day treasury business and will, in addition, be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP) which includes a section in relation to treasury management.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS AND ADVISERS

11.1.1 Banking services

a) Name of supplier of service is Nat West. The branch address is High Street Stockton
b) Contract commenced June 2015 and runs for a period of 5 years
c) Cost of service – a schedule of charges is agreed at the beginning of the contract

11.1.2 Money-broking services

Name of supplier of service:

- Prebon Brokers (UK) plc
- BGC International Brokers Ltd
- ICAP Brokers Ltd
- Tradition Brokers
- Martin Brokers
- I Deal Trade (Arlingclose Trading Platform)

11.1.3 Consultants'/advisers' services

The authority has a formal contract with Arlingclose Ltd, to provide a range of technical advice and information covering the treasury business. This contract commenced on the 1st January 2017 and will run for a period of 3 years with an option to extend for a further 2 years.

11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

See TMP2

TMP12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

In furtherance of a robust corporate governance policy, the following documents are available for public inspections:

1. Treasury Management Strategy
2. Treasury Management Practices
3. Annual Treasury Management Report
4. Annual Statement of Accounts
5. Annual Budget

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 10

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

28th FEBRUARY 2018

REPORT OF FINANCE DIRECTOR

ANTI-FRAUD AND CORRUPTION STRATEGY 2018-19

SUMMARY

The purpose of this report is to advise Members of the Anti-Fraud and Corruption arrangements for the period 2018-2019.

RECOMMENDATION

That the Audit Committee approves the Anti-Fraud and Corruption Strategy (**Appendix A**).

DETAIL

1. Estimates suggests in excess of £300m is being lost to fraud in local government. With the pressures faced by our services it is imperative that we are able to ensure the funds we have are not being lost to fraudsters.

2. The Chartered Institute of Public Finance and Accountancy (CIPFA) take the lead on providing advice and guidance to the sector on managing the fraud risk. They also co-ordinate annual surveys of fraudulent activity detected across local government.

3. A Code of Practice on Managing the Risk of Fraud and Corruption was published by CIPFA in October 2014. The code has 5 distinct strands:
    - Acknowledge Responsibility
    - Identify Risks
    - Develop a Strategy
    - Provide Resources
    - Take Action

4. The attached strategy has been developed in line with the code of practice with each of the 5 themes addressed. The format of the strategy has been redefined from previous versions to improve the visual appeal of the strategy and make it more effective.

5. At the core of the code is understanding our fraud risk and ensuring we provide adequate resources to address the areas of greatest risk. The risk to the combined authority would appear to be relatively low and this is reflected within the strategy

6. Based on the results of local counter fraud activity and the national estimates of where fraud occurs it would appear the resources we have available and where they are deployed are commensurate with the current level of risk exposure.

7. There are a significant number of promotional materials available to support counter fraud efforts. Included in the strategy are a number of actions around raising awareness and ensuring everyone understands the risk of fraud therefore helping to prevent fraud occurring and where it does to ensure it is reported and appropriate action is taken.

8. The audit plan supports the fraud risk assessment process providing advice and guidance where controls need to be improved. Good practice suggests continuous monitoring is an effective process for detecting fraud early. Much of the work within the audit plan is moving towards continuous monitoring not only to improve the efficiency and effectiveness of the audit service but also to support the early detection of fraud reducing its impact.

FINANCIAL AND LEGAL IMPLICATIONS

9. None

RISK ASSESSMENT

10. The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

CONSULTATION

11. Not Applicable

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Anti-Fraud & Corruption Strategy

2018/2019

Foreword

Welcome to Tees Valley Combined Authority's Anti-Fraud and Corruption Strategy. Fraud and corruption is estimated to cost the public sector £702M a year in the UK with estimates in the region of £336m in local government alone. Nationally, Authority Tax Fraud continues to be an area where significant fraud occurs and Social Services and Procurement fraud have been identified as the areas of greatest risk. Despite these areas being outside of the combined authority's remit risks do still exist.

Types of Fraud	Fraud Cases	Value	Average
Council Tax	57,136	£25.5m	£400
Housing	5,939	£263.4m	£44,300
Blue Badge	5,751	£4.3m	£800
Business Rates	662	£7.0m	£10,600
Adult Social Care	446	£5.6m	£12,500
Insurance Claims	371	£5.1m	£13,800
No Recourse to Public Funds	342	£6.9m	£20,200
Mandate	325	£1.7m	£5,200
Schools	258	£0.5m	£2,000
Payroll	248	£1.0m	£4,100
Pensions	228	£0.8m	£3,400
Procurement	197	£6.2m	£31,300
Debt	142	£0.3m	£2,400
Welfare Assistance	103	£0.3m	£3,000
Expenses	75	£0.1m	£1,900
Children's Social Care	59	£0.8m	£13,800
Manipulation of Data	57	Na	Na
Recruitment	46	£0.2m	£3,700
Voluntary Sector Support	39	£1.5m	£38,800
School Transport	19	£0.2m	£12,300
Investments	0	£0.0m	Na
Other	2,768	£4.7m	£1,700
Total	75,212	£336.2m	£4,500

This strategy will therefore be focussed on employee related fraud and procurement fraud.

Fraud – this is defined by the Fraud Act 2006 "A person shall be guilty of fraud if he

- dishonestly makes a false representation, or
- dishonestly fails to disclose to another person information which he is under a legal duty to disclose, or
- occupies a position in which he is expected to safeguard or not to act against the financial interests of another person and dishonestly abuses that position

AND

- intends to make a gain for himself or another or to cause loss to another or expose another to a risk of loss"

The Authority recognises that as well as causing financial loss, fraud is also detrimental to the provision of services, and damaging to the reputation of, and confidence in, the Authority, public bodies in general and reputable businesses.

The Authority is clear that it will not tolerate any impropriety by employees, Members or third party organisations.

Internal Audit

Stockton on Tees Borough Authority

16 Church Road (Room 135)

Stockton on Tees

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01642 526176

internalaudit@stockton.gov.uk

Role:

Investigate employee fraud.

Collate statistics.

Maintain the Anti-Fraud & Corruption Strategy.

Co-ordinate NFI Exercise

Understanding the Fraud Risk

1	Fraud & Corruption	Failure to detect or prevent fraud and corruption.

Causes	Implications	Risk Status
• Breach in standards, corporate policies or procedures. • Poor recruitment standards, or vetting of contractors. • Economic recession and individual circumstances create pressures and motivate the crime. • Bribery or collusion. • Opportunity provided by system weakness and poor internal controls. • Erosion of ethics. • Employee disaffection.	• Financial loss. • Negative publicity and adverse impact on reputation. • Loss or damage to resources or infrastructure. • Data loss or breach. • Detrimental impact on service provision.	The Authority has a responsibility to protect public funds for which we are responsible. Fraud on public funds is unacceptable therefore the Authority is committed to minimising the risk of fraud, corruption and misappropriation. Development of an anti-fraud culture is part of improving resilience to fraud, through raising awareness, clearly defined responsibilities, robust reporting mechanisms and a suitability resourced anti-fraud strategy. In terms of the combined authority and the functions it delivers the levels of fraud detected nationally are relatively low and as such the risk of fraud to the combined authority is considered relatively low.

Current Risk			Desired Outcome		
Impact	Likelihood	Score	Impact	Likelihood	Score
2	2	4	2	2	4

How we tackle Fraud

Detection

- The Authority will use all legal and cost effective means to detect fraud, corruption and bribery including working with other organisations in national data matching schemes e.g. the National Fraud Initiative, Housing Benefit Matching Service, HMRC Taxes Management Act Returns. This may require the lawful sharing of information.
- Risk based Internal Audit Plan that ensures areas with a high risk of fraud are reviewed at least annually.
- All stakeholders are expected to report suspected fraud, corruption or bribery promptly.

Prevention

- The establishment of adequate internal control systems to prevent fraud is the responsibility of Management.
- The Senior Management Team are responsible for assessing the effectiveness of internal control systems in relation to fraud, corruption and bribery.
- Internal Audit coverage is sufficient to provide annual assurance to the Authority's Audit & Governance Committee and supports managers by assessing controls in relation to the prevention of fraud.
- Awareness raising with staff around the importance of maintaining adequate control systems.

Respond

- All instances of suspected fraud must be notified to Internal Audit service to enable the completion of annual returns and to form evidence to support the Annual Governance Statement.
- Investigation will be conducted by the most appropriate section as detailed below:
    - Fraud involving employees will be investigated in accordance with the Authority's Disciplinary Procedures by a nominated Investigation Manager with support from the Internal Audit Service. (See Appendix A)
- The Authority will adhere to the provisions of the Regulation of Investigatory Powers Act (RIPA) and Money Laundering Legislation.
- Any decision to involve the Police in any investigation of fraud will be taken by the Director of Finance in consultation with the Managing Director and the Monitoring Officer.
- The outcome of the investigation of fraud against the Authority will be reported appropriately to ensure systems and procedures are amended and to act as a deterrent.
- The Authority recognises the need to ensure that its investigation process is not misused. Any abuse such as the raising of malicious allegations by officer/members will be dealt with as a disciplinary matter.
- Sanctions – Including recovery of proceeds (POCA, Civil Law, Pensions)

Policy Framework

- Codes of Conduct;
- Protocol on Gifts and Hospitality;
- Confidential Reporting ("Whistleblowing") Policy and Complaints Procedures;
- Contracts Procedure Rules;
- Standing Orders and Financial Procedural Rules;
- ICT Security Policies;
- Robust internal control systems, processes and reliable record keeping;
- Effective Internal Audit;
- Effective Recruitment procedures;
- Disciplinary Policy and Procedures;
- Induction and Training.

Action Plan

Required Actions	Owner and Target Date
Anti-Fraud Strategy Develop an effective counter fraud strategy setting out our approach to managing the risk of fraud and defining responsibilities for action. • Anti-Fraud Strategy to be updated and presented to Audit Committee for approval. • Progress against the Anti-Fraud Strategy and Action Plan to be reviewed quarterly as informed by the risk assessment process. • Review related policies e.g. Confidential Reporting and ensure these are up to date and consistent with the Anti-Fraud Strategy. • Develop an Internet and Intranet presence for the updated Anti-Fraud Strategy, linked policies and fraud reporting mechanisms.	February 2018 - Audit & Risk Manager May 2018 - Audit & Risk Manager February 2018 - Audit & Risk Manager April 2018 - Audit & Risk Manager
Fraud Risk Assessment Periodic fraud risk assessment undertaken to understand the scale of corporate fraud risk and the potential implications to the organisation. • Fraud and Corruption risk included in the Strategic Risk Register. • Quarterly monitoring and update of identified controls, actions and current status. • Assess the extent to which Senior Management identify and monitor fraud risks and increase senior management ownership as necessary. • Reporting fraud risk to Members in line with the Risk Management policy.	February 2018 - Audit & Risk Manager May 2018 - Audit & Risk Manager On-Going - Audit & Risk Manager On-Going - Audit & Risk Manager
Data Matching Detection of potential fraud through the use of third party data matching. • Participation in NFI data matching exercises and review of potential matches in high risk areas. • Increase resources available to review high priority matches identified.	On-Going - Audit & Risk Manager On-Going - Audit & Risk Manager
Continuous Audits and the Use of Data Analytics Employ data analytic tools for the purpose of preventing and detecting fraud. • Expand the use of IDEA and the programme of continuous auditing. • Increased sharing and matching of internal and/or cross boundary data to develop local counter fraud exercises.	On-Going - Audit & Risk Manager On-Going - Audit & Risk Manager
Audit Work Internal Audit assists management in determining whether effective internal controls are in place to manage the risk of fraud. • Results of the Fraud and Corruption risk assessment to inform the work of Internal Audit, including systems audit work, proactive fraud and corruption checks (compliance) and fraud awareness activities. • More probing and directed audits to be conducted in key areas of fraud risk. • Fraud Audits to consider management controls over fraud. • Consider fraud as part of every audit. • Issue annual audit opinion on the internal controls related to fraud.	April 2018 - Audit & Risk Manager On-Going - Audit & Risk Manager On-Going - Audit & Risk Manager On-Going - Audit & Risk Manager June 2018 - Audit & Risk Manager

Required Actions	Owner and Target Date
Awareness Campaigns Employee and Member training and awareness sessions and campaigns to provide information relating to what constitutes fraud and the means to report suspected fraud. • Review campaign materials available online e.g. “Take Five to Stop Fraud” and determine how we can use these locally. • Develop e-learning fraud awareness package for Employees and Members. • Establish and deliver a leaflet and poster campaign. • Increase use of Social Media to promote fraud awareness. • Undertake specific fraud awareness training for priority service areas. • Use of Briefings, KYIT to publish awareness campaigns, particularly during national fraud awareness weeks.	April 2018 - Audit & Risk Manager July 2018 - Audit & Risk Manager July 2018 - Audit & Risk Manager April 2018 - Audit & Risk Manager On-going - Audit & Risk Manager On-going - Audit & Risk Manager

Publication of Fraud Information
Create transparency through the annual publication of public fraud data.
• Develop a register for recording fraud information.
• In line with requirements of the Local Government Transparency Code 2015 the following should be reported on an annual basis:
    • Number of occasions the authority has used powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.
    • Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.
    • Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists
    • Total amount spent by the authority on the investigation and prosecution of fraud.
    • Total number of fraud cases investigated.
	March 2018 – Audit & Risk Manager
	March 2018 – Audit & Risk Manager

TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 11

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

28th FEBRUARY 2018

REPORT OF THE FINANCE DIRECTOR

CORPORATE RISK REGISTER

SUMMARY

This report presents the Tees Valley Combined Authority Corporate Risk Register as at the end of the fourth quarter of 2017/18.

RECOMMENDATIONS

It is recommended that Audit and Governance Committee consider and comment on the contents of the Tees Valley Combined Authority Corporate Risk Register.

DETAIL

1. The Corporate Risk Register attached at **Appendix 1** covers the period 1st January 2018 to 31st March 2018 and details risks that affect the operations of the Combined Authority as a whole. They have been reviewed and assessed using the assessment method included in the Risk Management Strategy.

2. No risks have been assessed as high risks in this period.

3. No Business Plan risks have been escalated to the Corporate Risk Register during the last quarter.

4. All risks are constantly being managed and reviewed.

5. The Corporate Risk Register will be shared with Audit and Governance Committee on a quarterly basis.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

8. This content of this report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

9. None required.

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Corporate Risk 2017/18

		Current assessment								
Ref	**Risk description**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Current Controls**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C01	Impact of Brexit on EU funding, including financial uncertainty and economic instability that affects national policy in relation to devolution and impact on ability to progress TVCA devolution strategy	3	3	9	-	• On going 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 • Liaison with other CAs/LEPs	Ongoing Ongoing		Apr-18
C02	Failure to operate within TVCA constitution	4	1	4	-	• Updates and reports to TVCA Board • Briefing and engagement with Constituent Authorities members taken place • Public Consultation undertaken • O&S and A&G Committee meeting regularly	• Ensure A&G meetings are quorate - consider recruiting additional independent members	Mar-18		Apr-18
C03	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation	4	3	12	-	• STDC established as legal entity 1st Aug 17 • Official launch 23rd August • Continued dialogue with Government				Apr-18
C04	Failure to deliver commitments entered into in the devolution deal (See C07 for delivery of projects which were part of devo deal)	3	3	9	-	• Implementation Plan agreed with Government • Bi-monthly meeting with Government officials and on-going dialogue/reporting • Management of Business Plan • Most acitivites from the devolutiom deal now form part of TVCAs day to day work eg transport priorities • Undelivered/ partially delivered devolution deal elements will be captured where appropriate in the next deal eg skills elements	• Annual Conversation with Government	Mar-18	See C07 & C08	Apr-18
C05	Failure to secure sufficient additional resources to fund proposed activity	3	3	9	-	• Robust Medium Term Financial Plan, Treasury Management Strategy and Investment Plan agreed by TVCA Board • 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 pojects	• Mayor to meet with Government Ministers			Apr-18

Corporate Risk 2017/18

		Current assessment								
Ref	**Risk description**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Current Controls**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C06	Failure to manage funding in order to deliver maximum value for money	2	2	4	-	• Creation and utilisation of Assurance Framework • Investment Plan agreed and operational • Finance Director in post • Strategic Investment Team monitoring in place • Investment Panel in place	• Investment plan to be reviewed as part of budget process - to be approved at Cabinet • Strategic Investemnt Team review - additional capacity requried	Feb-18 Mar-18		Apr-18
C07	Failure to deliver the existing pipeline of funding commitments and achieve targeted spend	3	3	9	↑3	• Creation and utilisation of Development Fund to provide upfront investment in feasibility work • Programme monitoring and review • Assurance Process in place • Strengthened capacity with addition of new Finance Director and Legal & Commercial Manager posts • Investment Plan Risk Register operational • Regular Investment Panel meetings	• Investment plan to be reviewed as part of budget process - to be approved at Cabinet • Assurance Framework to be revised • Monthly spend reviews	Feb-18 Spring-18 Ongoing	Work ongoing on Assurance Framework compliance	Apr-18
C08	Failure to secure agreement on the future investment priorities	3	3	9	-	• TVCA Board has overall responsibility 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 Cabinnet agenda as standing item • First invitation for proposals to the Tees Valley Investment Fund has taken place and pipeline agreed • Additional EOIs received as received • Oversight by TV Management Group • 6 month review of Investment Plan undertaken	• Investment plan to be reviewed as part of budget process - to be approved at Cabinet	Feb-18		Apr-18

Corporate Risk 2017/18

		Current assessment								
Ref	**Risk description**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Current Controls**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C09	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed	3	3	9	-	• Head of Communication & Marketing appointed • Communications Plan in place	• Communication & engagement strategy to be developed	TBC		Apr-18
C10	Failure to provide sufficient capacity to deliver TVCA functions	3	3	9	-	• Oversight by Senior Management Team • Reviews being implemented				Apr-18
C11	Failure to pass the first Gateway Review	5	2	10	-	• Bi-monthly meeting with Government officials and on-going dialogue • Assurance framework • Internal Audit • Devolution deal proposals	• Mayor to meet with Government Ministers • Funding cannot progress to final approval unless it meets the Assurance Framework process. To be signed of by Investment Director • Staff to be trained on the Assurance Framework to ensure it is being adhered to			Apr-18
C12	Failure to maximise influence on regional/national level	2	2	4	-	• LEP Network representation • Mayoral Role	• Mayor to meet with Government Ministers and other stakeholders			Apr-18
C13	Failure to build and maintain relationships with key partners	3	3	9	-		• Engagement Plan to be developed			Apr-18
C15	Failure to detect fraud	5	2	10	-	• Internal audit • Internal expenditure approvals process • Assurance Framework for Investment				Apr-18

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TEES VALLEY COMBINED AUTHORITY

Tees Valley Combined Authority Audit & Governance Committee

Forward Plan 2018/19

Standing Items

Minutes from the Previous Meeting
Announcements from the Chair
Forward Plan
Date and Venue of the Next Meeting

Date	Venue	Item / Responsible Officer
Thursday 31st May	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Selection of Chair/Vice Chair Terms of Reference Internal Audit Annual Report and Opinion External Audit Report External Audit – Progress Report Draft Annual Governance Statement Statement of Accounts Risk Management Strategy & Corporate Risk Register Annual Financial Statements – Draft prior to Audit
Thursday 26th July	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	External Audit – Completion report and Value for Money Opinion Annual Financial Statements – Approval after Audit Annual Governance Statement - Approval
Thursday 27th September	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Annual Letter External Audit Progress Report Treasury Management Annual report

Thursday 29th November	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Progress Report Treasury Management Strategy 2018/19 – Mid Term Review
Thursday 28th February 2019	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Progress Report External Audit Strategy Memorandum (Audit Plan) Internal Audit Charter & Audit Plan Treasury Management Strategy 2019/20 Anti-Fraud & Corruption Agreement Work Programme 2019/20

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