Audit and Governance Committee
Agenda

Date: Friday 1st December 2017 at 10.00am

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)
Colin Fyfe (Independent member)
Paul Bury (Independent member)

AGENDA

1. **Introductions**

2. **Apologies for absence**

3. **Declarations of interest**

4. **Minutes**
   The minutes of the meeting held on 5th September 2017 for confirmation and signature

5. **Internal Audit Report**
   Report

6. **Corporate Risk Register**
   Report

7. **External Audit Annual Letter**
   Report

8. **External Audit Progress report**
   Report

9. **Treasury Management Strategy (2016/17) Mid-Term Review**
   Report

TEES VALLEY COMBINED AUTHORITY

10. General Reserve Policy
Report

11. Forward Plan
Attached

13. Date of the next meeting
28th February 2018 at 10.00am – Cavendish House, Stockton-On-Tees

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).

TEES VALLEY COMBINED AUTHORITY

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.

AGENDA ITEM 5

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

1st DECEMBER 2017

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.

FINANCIAL IMPLICATIONS

4. None

LEGAL IMPLICATIONS

5. None

RISK ASSESSMENT

6. 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

7. N/A

Name of Contact Officer: Andrew Barber
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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 20 November 2017

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	Not Started	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	On-Going	30 November 2017					
2542	Debtors	Planned	On-Going	31 March 2018					
2543	Data Protection	Planned	Not Started	31 December 2017					
2544	Creditors	Planned	On-Going	31 March 2018					
2545	Cloud Computing	Planned	Not Started	31 March 2018					
2549	Recruitment Services	Planned	On-Going	31 January 2018					
2552	Active Directory	Planned	Not Started	31 March 2018					
2558	Business Continuity & Disaster Recovery	Planned	On-Going	31 January 2018					
2581	Absence Management	Planned	Draft						
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	Not Started						
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.

AGENDA ITEM 6

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

1st DECEMBER 2017

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 third 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 October 2017 to 30th December 2017 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	↓7	• 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		Dec-17
C02	Failure to operate within TVCA constitution	4	1	4	↓4	• Updates and reports to TVCA Board • Briefing and engagement with Constituent Authorities members taken place • Public Consultation undertaken • Overview & Scrutiny Committee meeting regularly				Dec-17
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				Dec-17
C04	Failure to deliver commitments entered into in the devolution deal	3	3	9	-	• Implementation Plan agreed with Government • Bi-monthly meeting with Government officials and on-going dialogue/reporting • Management of Business Plan • Leaders met with Secretary of State				Dec-17
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	• Mayor to meet with Government Ministers			Dec-17
C06	Failure to manage funding in order to deliver maximum value for money	2	2	4	↓5	• Creation and utilisation of Assurance Framework • Investment Plan agreed and operational	• Investment plan to be reviewed as part of budget process	Autumn 17		Dec-17

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
C07	Failure to deliver the existing pipeline of funding commitments	3	2	6	↓3	• Creation and utilisation of Development Fund to provide upfront investment in feasibility work • Programme monitoring and review • Assurance Process • Strengthened capacity with addition of new Finance Director and Legal & Commercial Manager posts	• Investment plan to be reviewed as part of budget process	Autumn 17		Dec-17
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 • Oversight by TV Management Group	• Next round of EOIs to be invited • 6 month review of Investment Plan to be undertaken	Autumn 17 Autumn 17		Dec-17
C09	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed	3	3	9	-	• Acting Marketing & Comms Manager appointed • Communications Plan in place	• Engagement Plan to be developed			Dec-17
C10	Failure to provide sufficient capacity to deliver TVCA functions	3	3	9	-	• Oversight by Senior Management Team				Dec-17
C11	Fail to pass the first Gateway Review	5	2	10	↓5	• Bi-monthly meeting with Government officials and on-going dialogue • Assurance framework • Internal Audit	• Mayor to meet with Government Ministers			Dec-17

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**
C12	Fail to maximise influence on regional/national level	2	2	4	↓5	• LEP Network representation • Mayoral Role	• Mayor to meet with Government Ministers and other stakeholders			Dec-17
C13	Fail to build and maintain relationships with key partners	3	3	9	-		• Engagement Plan to be developed			Dec-17

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Annual Audit Letter

Tees Valley Combined Authority

TEES VALLEY COMBINED AUTHORITY

For the year ended 31 March 2017

MAZARS

Contents

Executive summary

Purpose of this report

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Tees Valley Combined Authority ('the Authority') for the year ended 31 March 2017. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 ('the 2014 Act') and the Code of Audit Practice issued by the National Audit Office ('the NAO'). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of work	Summary
Financial statements opinion	On 29 September 2017 we issued our opinion that: • the financial statements give a true and fair view of the Authority's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	On 29 September 2017 we issued our opinion that: • the Narrative Report published with the financial statements, is consistent with those financial statements.
Value for Money conclusion	On 29 September 2017 we issued our conclusion that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts	We reported to the NAO, in line with their instructions, on 29 September 2017.
Matters that we report by exception	We have not identified any matters to report in relation to: • whether the Annual Governance Statement is in line with our understanding of the Authority and the requirements of the Delivering Good Governance in Local Government Framework 2016; • reports in the public interest or written recommendations made under s24 of the 2014 Act; • exercise of other audit powers under the 2014 Act.

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified the closure of the audit on 29 September 2017.

Audit of the financial statements

Financial statements opinion	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the relevant financial reporting framework and whether they give a true and fair view of the Authority's financial position as at 31 March 2017 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing for the UK and Ireland (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£668,000
Specific materiality	We have applied a lower level of materiality to the following items of account: • Senior officer remuneration • Related Party Transactions
Trivial threshold	£20,000

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Significant risk	How we addressed the risk	Audit conclusion
Management override of control In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk by performing audit work in the following areas: • accounting estimates affecting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our work provided the assurance we sought.
Recognition of grant income Grant income received by the Authority from Government and other grant paying bodies often includes specific conditions that must be met before the Authority should recognise the income in its accounts. Because of the nature of grant income with conditions, there is a risk that the Authority recognises grant income in the incorrect reporting year.	We performed specific procedures to provide assurance that grant income is included in the correct year.	Our work provided the assurance we sought.

Valuation of the defined benefit pension scheme and pensions estimates (IAS19) 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 identified any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we: • evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and • considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally commissioned by the NAO.	Our work provided the assurance we sought.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our 2016/17 audit did not identify any significant deficiencies to report.

Value for Money (VFM) conclusion

Value for Money conclusion	Unqualified

Summary of our work

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

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

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

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	*Acting in the public interest, through demonstrating and applying the principles and values of sound governance* • Constitution in place which is available on the Authority's website, updated February 2017 to reflect move to an elected Mayor. • Constitution includes financial regulations and Assurance Framework, Delegation to officers and Code of Conduct. • Devolution deal also available on the Authority's website. • Authority has a Strategic Economic Plan (SEP) plan in place for the period 2016 to 2026 available on the Authority's website (updated December 2016). • New Authority therefore new management team in place in 2016 including Managing Director (MD) and three other directors. *Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management* • No data quality issues in respect of performance information we are aware of.	Yes

	• Audit and Governance Committee met only once in the year in March 2017, but has undertaken its work programme for the year with a backward look, and agreed a forward work programme. • Medium term planning is undertaken and plans are in place; current MTFP covers the period 2017/18 to 2020/21, and is updated at least annually. Initial budget and Medium Term Financial Plan (MTFP) was set at the start of the year and this went to the April 2016 Board. • Update on the financial position, proposed 2017/18 budget and updated MTFP presented to the Board in January 2017. • Separate Investment Plan in place – approved by the Board in March, details funding available and how planning to deliver the SEP. *Reliable and timely financial reporting that supports the delivery of strategic priorities* • Periodic reporting to members in the year, at start of the year and January 2017 (also considered by the Overview & Scrutiny Committee). • Authority plans, strategies and MTFP are all on the Authority's website. Includes section on future plans/developments and the role of the Combined Authority. • MTFP is updated as part of the current year's budget setting process. *Managing risks effectively and maintaining a sound system of internal control* • Management assurance framework; May 2016 and updated August 2016 Risk register in place for individual Local Growth Fund Programme cost which is maintained by the Managing Director and the Chief Financial Officer. • Devolution deal implementation Plan incorporates high level risks. • Detailed presentation on risk management arrangements and key risks to March 2017 Audit and Governance Committee. • Programme of Internal Audit work at the Authority, delivered by Stockton BC's IA function (under delegated arrangements). • Arrangements to produce 2016/17 Annual Governance Statement in place, and separate internal audit opinion prepared for the Authority.	
Sustainable resource deployment	*Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions* • First year of the Authority, there are however no significant gaps in funding in the MTFP. MTFP updated January 2017. • Nature of the Authority's funding and expenditure (i.e. largely grant income which is then paid out to approved schemes linked to the SEP) does not indicate any significant risk to achievement of strategic priorities in the short term.	Yes

	Managing and utilising assets effectively to support the delivery of strategic priorities • Authority does not have any significant assets of its own and no items meet the capitalisation threshold and hence no Property, Plant and Equipment, and as such does not have an 'asset register', but does maintain a list of equipment, IT etc. • Significant element of the Authorities funding is being used to deliver capital projects. These assets are however not held by the Authority • SEP identifies future large scale capital schemes/priorities. *Planning, organising and developing the workforce effectively to deliver strategic priorities* • HR and payroll functions provided by Stockton BC and Authority relies on HR policies and procedures shared with the BC. A capacity review was undertaken by the MD in 2016, and the Authority is continuing to review capacity as its responsibilities continue to develop.	
Working with partners and other third parties	*Working with third parties effectively to deliver strategic priorities* • Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 LAs on Teesside and other public and private organisations. • Authority structure includes the Teesside LEP (transferred from Stockton BC as at 01/04/2016) – Tees valley Unlimited. The LEP continues to have a separate Board and members of the LEP are none voting members of the Authority (other than the Chair who is a voting member). • LEP members are drawn from a wide range of other public bodies (i.e. education) and private companies. • SEP and website identify organisations that the Authority is working with in order to achieve its strategic priorities – i.e. Tess Valley Strategic Transport Plan – Connecting the Tees Valley. *Commissioning services effectively to support the delivery of strategic priorities* • Overall aim of the Authority and the Tees Valley Local Enterprise Partnership is to maximise the amount of investment in Tees Valley, to achieve economic growth and to create more jobs and success for the area. How the Authority plans to deliver this is set out on its website and in its SEP. • This is in the short term being delivered through provision of grants to other external bodies (i.e. Local Authorities, Education establishments, and local business) rather than through direct commissioning of its own services. *Procuring supplies and services effectively to support the delivery of strategic priorities* • This has in part been delegated by the Authority to Stockton BC. • The Authority has written procedures for procuring products and services, which are within its Constitution (part 6).	Yes

Significant Value for Money risks

As part of our continuous planning processes, we carry out work to identify whether or not a risk to our VFM conclusion exists. We did not identify any significant audit risks at the planning stage of our audit, and as such did not report any in our Audit Strategy Memorandum. We kept this under review throughout our audit and were satisfied that there were no significant audit risks apparent in respect of VFM.

Other reporting responsibilities

Exercise of statutory reporting powers	**No matters to report**
Annual Governance Statement	**No matters to report**
Whole of Government Accounts	**Submission to NAO completed**
Other information published alongside the financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific reporting powers where matters come to our attention that require reporting to parties other than the Authority. We have the power to:

- report in the public interest; and
- make statutory recommendations to the Authority, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any such objections or questions.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Authority.

We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Authority in relation to the Annual Governance Statement.

Reporting to the NAO in respect of Whole of Government Accounts

The NAO requires us to report to undertake specified work in line with their instructions. We did this and issued our return to them on 29 September 2017.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the information in the Narrative Report is consistent with the audited financial statements.

Our fees

Fees for work as the Authority's appointed auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Governance Committee in June 2017. Having completed our work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£30,000	£30,000
Other non-Code work	~	~

We confirm that these fees are in line with the scale fee set by Public Sector Audit Appointments Ltd.

We also confirm that we have not undertaken any non-audit services for the Authority in the year.

Future challenges

Financial outlook and operational challenges

The environment in which the Authority operates is challenging. The UK's planned exit from the European Union means that there is great uncertainty about large elements of income and this makes planning difficult in the medium to long term. The Authority recognises this risk and has plans in place to manage it where this is possible.

Despite this, the Authority has significant ambitions which also bring an element of risk. The Authority's Investment Plan is one of a suite of documents that set out what it hopes to achieve over the coming years, to 2021 and will require close monitoring.

In addition, a Mayoral development corporation has been established to concentrate on the regeneration of the former SSI steelworks site.

The Mayor, Members and management therefore have much to focus on in the coming year.

How we will work with the Authority

We will focus our 2017/18 audit on the risks that these challenges present to the Authority's financial statements and its ability to maintain proper arrangements for securing value for money. We will also share with the Authority relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that the finance team face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key focus in the coming year will be working with officers to ensure a smooth process to an earlier accounts and audit timetable that will take effect in the 2017/18 financial year.

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Audit Progress and Technical Update Report

Tees Valley Combined Authority

TEES VALLEY COMBINED AUTHORITY

December 2017

MAZARS

Contents

Audit progress

Purpose of this report

The purpose of this paper is to provide the Audit and Governance Committee (the Committee) with a report on progress in delivering our responsibilities as your external auditors.

This paper also seeks to highlight key emerging national issues and developments which may be of interest to Members of the Committee.

If you require any additional information regarding the issues included within this briefing, please contact any member of your engagement team.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

Progress on the audit – 2016/17 audit

Since the Committee last met, we have:

- following the Cabinet meetingon 29 September 2017, issued an unqualified:
  - opinion on the Authority's 2016/17 financial statements; and
  - value for money conclusion.

We also reported to the National Audit Office on the Authority's Whole of Government Accounts pack on 29 September 2017, in line with their instructions.

We have discussed our Annual Audit Letter with officers and will be presenting it as a separate agenda item.

Appendix 1 provides an overall summary of reporting outputs of our 2016/17 audit.

Progress on the audit – 2017/18 audit

We have continued to meet senior management and review minutes, which will inform our risk assessment for our 2017/18 audit. We will issue our Audit Strategy Memorandum to the Committee in early 2018, which will set out the risks we have identified and the programme of work we plan to carry out in response to those risks.

Certification of claims and returns

As Members will be aware, the Authority can sometimes be required by funding bodies to arrange independent certification of a range of grant claims and returns.

We have not undertaken any work on claims and returns since our last progress report, and as such there are no matters to report in this progress report.

National publications and other technical updates

	National publications and other updates
1.	Procurement of audit services, Public Sector Audit Appointments Ltd, June 2017
2.	Online Fraud, NAO, June 2017
3.	Annual Regulatory Compliance and Quality Report 2016-17, Public Sector Audit Appointments Ltd, August 2017
4.	Cyber security and information risk guidance for Audit Committees, NAO, September 2017
5.	Review of Local Enterprise Partnership Governance and Transparency, DCLG, October 2017

1. Procurement of audit services, Public Sector Audit Appointments Ltd, June 2017

In June 2017, Public Sector Audit Appointments Limited (PSAA) reported the outcome of its national procurement of audit contracts for local government and related bodies that will run for five years from the 2018/19 audits, with an option to extend by a further two years. The procurement applied to those bodies which opted to be part of it, which included Tyne & Wear Fire and Rescue Authority.

As part of the procurement, Mazars increased its national market share of this work from approximately 6% to 18%. The other firms that were successful in winning market shares were Grant Thornton, EY, BDO and Deloitte. The five current firms providing this work are Mazars, Grant Thornton, EY, BDO and KPMG.

PSAA estimated that the procurement pointed to a possible scale fee reduction of the order of 18% from 2018/19 audits. PSAA is currently consulting bodies on individual auditor appointments.

http://www.psaa.co.uk/archive/press-release-procurement-of-audit-services-delivers-outstanding-results/

2. Online Fraud, NAO, June 2017

Online fraud is now the most commonly experienced crime in England and Wales, but has been overlooked by government, law enforcement and industry.

https://www.nao.org.uk/report/online-fraud/

3. Annual Regularity, Compliance and Quality Report, Public Sector Audit Appointments Ltd, August 2017

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all audit firms in its regime. The audit quality and regulatory compliance monitoring for 2016/17 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit internal quality monitoring;
- reviews (QMRs) of its financial statements and Value for Money (VFM) arrangements conclusion audit work;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of PSAA's inspection of each firm by the FRC's Audit Quality Review team (AQRT) as part of a commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2015/16 work.

The report concludes the following in respect of Mazars LLP:

"Mazars is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2016/17, Mazars' combined audit quality and regulatory compliance rating was green. The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor. Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2016/17 indicators scored as green".

Figure 1: 2017 Comparative performance for audit quality and regulatory compliance

	BDO	EY	Deloitte	PwC	Grant Thornton	KPMG	Mazars
2017	Amber	Amber	n/a	n/a	Amber	Amber	Green
2016	Green	Green	Green	Amber	Amber	Amber	Green
2015	Amber	Green	Amber	Amber	Amber	Amber	Green

For comparison, we have added in the previous years to the figure above taken from the report.

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

4. Cyber-security and information risk governance for Audit Committees, National Audit Office, September 2017

Cyber incidents pose an increasing threat to public bodies' management of their information, with hacking, ransomware, cyber fraud and accidental information losses all present throughout the public sector. Government guidance makes it clear that cyber security is now an area of management activity that audit committees should scrutinise. Together with the rapidly changing nature of the risk, this means that audit committees need to understand whether management is adopting a clear approach, and whether the organisation is complying with its rules and standards, and is adequately resourced for cyber security.To aid them, this National Audit Office (NAO) guidance complements government advice by setting out high-level questions and issues for audit committees to consider. It also contains a link to a related report on on-line fraud, which NAO published earlier in the year, noting that online fraud is now the most commonly experienced crime in England and Wales, but has been overlooked by government, law enforcement and industry.

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

5. Review of Local Enterprise Partnership Governance and Transparency, DCLG, October 2017

The aim of the review was to assess whether current systems provide assurance to the Accounting Officer and Ministers that Local Enterprise Partnerships (LEPs) fully implement the requirements of the revised national assurance framework set by DCLG. The framework covered all government funding flowing through LEPs, to ensure they have robust value for money processes in place and sets out what government expects LEPs to cover in their local assurance frameworks. The review covers:

- Culture and accountability
- Structure and decision making
- Conflicts of interest
- Complaints policy and process
- Role of the Section 151 Officer
- Publication of information and transparency
- Government oversight and enforcement
- Sharing best practice

The review has identified a number of measures which would give greater assurance to the Accounting Officer and government on the governance and transparency of LEPs, and made recommendations, if supported, which should be taken forward in partnership with the LEPs and with accountable bodies.

https://www.gov.uk/government/publications/review-of-local-enterprise-partnership-governance-and-transparency

Appendix 1 – Position statement of 2016/17 audit

Planned output	Expected completion date	Draft report issued to management	Final report issued to management	Final report presented to Audit Committee	Comments
2016/17 Audit Fee Letter	~	N/A	February 2017	N/A	~
Audit Committee Progress Report and Briefing	N/A	N/A	N/A	N/A	To each and every meeting.
2016/17 Audit Strategy Memorandum	April 2017	April 2017	May 2017	June 2017	~
2016/17 Audit Completion Report, incorporating: • Opinion on the financial statements; and • VFM Conclusion.	August 2017	August 2017	September 2017	September 2017	~
2016/17 Annual Audit Letter	October 2017	10 October 2017	20 October 2017	December 2017	~

Contact details

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

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AGENDA ITEM 9

REPORT TO THE TEES VALLEY AUDIT & GOVERNANCE COMMITTEE

1st DECEMBER 2017

REPORT OF FINANCE DIRECTOR

TREASURY MANAGEMENT STRATEGY MID TERM REVIEW 2017/18

SUMMARY

This report informs Members of the performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by the TVCA Board on the 31st January 2017.

RECOMMENDATIONS

Members note the content of the report.

DETAIL

Introduction

The Authority 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 treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2017/18 was approved at a meeting of the Authority on 31st January 2017. 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.

External Context

Our treasury management advisors Arlingclose have provided the following commentary on the external context.

Economic backdrop: UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, it's lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". On the 2nd November the Bank of England increased the bank rate to 0.5%.

Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly $1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

Financial markets: The FTSE 100 powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

Credit background: UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Regulatory Updates

MiFID II: Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Authority meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status.

CIPFA Consultation on Prudential and Treasury Management Codes: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Board. There are also plans to drop or alter some of the current treasury management indicators.

CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

Local Context

On 31st March 2017, the Authority had net investments of £78.058m arising from its revenue and capital income and expenditure. 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. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m
General Fund CFR	0
Total CFR	**0**
Less: Other debt liabilities	0
Borrowing CFR	**0**
Usable reserves	87.316
Working Capital	-9.258
Net Investment	**78.058**

The treasury management position as at 30th September 2017 and the change over the period is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £m	Movement £m	30.9.17 Balance £m	30.9.17 Average Rate %
Long-term borrowing Short-term borrowing	0 0	0 0	0 0	0% 0%
Total borrowing	**0**	**0**	**0**	**0%**
Long-term investments Short-term investments Cash and cash equivalents	0 77.0 1.058	0 36.0 (0.147)	0 113.0 0.911	0% 0.33% 0.01%
Total investments	78.058	35.853	113.911	
Net investments	**78.058**	**35.853**	**113.911**	

The increase in investment funds relate to Government grant payments for the Local Growth Fund and Devolution funds being made in advance of need.

Borrowing Strategy during the half year

The Authority at the 30th September 2017 had limited powers to borrow and therefore did not enter into any borrowing agreements. All expenditure of a capital nature was funded through grants and contributions.

Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2017/18 the Authority's investment balance ranged between £78.1million and £131.0million due to timing differences between income and expenditure. To date these investments have generated £190.5k income for the authority. The investment position as at the 30th September is shown in table 3 below.

Table 3: Investment Position

Counterparty	Amount £	Rate %	Start Date	Maturity Date
Bank Of Scotland	5,000,000	0.55%	05-Jun-17	05-Dec-17
Bank of Scotland	5,000,000	0.55%	06-Apr-17	06-Oct-17
Coventry BS	5,000,000	0.44%	11-Apr-17	11-Oct-17
Goldmans	5,000,000	0.38%	22-Sep-17	29-Dec-17
Goldmans	5,000,000	0.36%	06-Mar-17	05-Jun-17
Santander	10,000,000	0.40%	12-Oct-16	95 Day Notice
Standard Life	10,000,000	0.29%	06-Oct-16	Money Market
Federated	10,000,000	0.29%	06-Oct-16	Money Market
Legal & General	10,000,000	0.28%	06-Oct-16	Money Market
Blackrock	2,000,000	0.23%	06-Oct-16	Money Market
Insight	10,000,000	0.28%	06-Oct-16	Money Market
Blackpool BC	3,000,000	0.27%	11-Sep-17	11-Jan-18

North Lincolnshire	3,000,000	0.20%	29-Aug-17	29-Nov-17
Plymouth	5,000,000	0.23%	28-Jul-17	30-Oct-17
Rushmoor	3,000,000	0.42%	12-Apr-17	12-Oct-17
Slough	5,000,000	0.38%	28-Sep-17	28-Feb-18
South Ayrshire	5,000,000	0.38%	01-Jun-17	01-Dec-17
Surrey Heath	2,000,000	0.20%	22-Aug-17	22-Nov-17
Telford & Wrekin	5,000,000	0.20%	11-Aug-17	13-Nov-17
Telford & Wrekin	5,000,000	0.27%	07-Sep-17	08-Jan-18
	113,000,000	**0.33%**		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently and to have regard to the security and liquidity of its 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.

In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Authority has continued to use money market funds which has allowed the Authority the flexibility to have access to funds immediately. Also due to the high level of investments this diversification was required so that limits with counterparties set within the treasury management strategy were not breached during the year. Due to the developing capital expenditure plans of the Authority it was not prudent to diversify further into higher yielding asset classes during the first part of 2017/18.

Due to the high level of investment funds held by the authority it is the intention to diversify into other pooled funds such as cash plus accounts and corporate bonds. This will have two positive aspects. One the authority should be able to receive a higher rate of investment income to invest back into services and it allows the authority to diversify and decrease risk. The 2018/19 treasury management strategy will be updated to reflect this diversification for Board approval.

Compliance Report

The Director of Finance is pleased to report that all treasury management activities undertaken during the first half of 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 4 below.

Table 4: Investment Limits

	2017/18 Maximum	**31.9.17 Actual***	**2017/18 Individual Limit**	**2017/18 Total Limit**	**Complied**
UK Banks, Foreign Banks and other organisations	£35m	£35m	£15m each	£50m	✓
Council's Own Clearing bank	£15m	£0m	£15m	£15m	✓

UK Building Societies without credit ratings	£5m	£0m	£5m each	£5m	✓
UK Local Authorities	£36m	£36m	£10m each	£50m	✓
UK Government DMO, Treasury Bills, Treasury Gilts & Instruments	£3m	£0m	Unlimited	Unlimited	✓
Money Market Funds	£50m	£42m	£10m each	£50m	✓

**see table 3 above for values with individual counterparties as at 31st September 2017*.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 5 below.

Table 5: Debt Limits

	2017/18 Maximum	**31.9.17 Actual**	**2017/18 Operational Boundary**	**2017/18 Authorised Limit**	**Complied**
Borrowing	£0	£0	£0m	£10m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. As the Authority has limited borrowing powers which it did not exercise during the year these limits were not breached.

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. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net interest payable was:

	30.9.17 Actual	**2017/18 Limit**	**Complied**
Upper limit on fixed interest rate exposure	63%	100%	✓
Upper limit on variable interest rate exposure	37%	100%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed at the point of investment. All other instruments are classed as variable rate.

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 were:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£0m	£0m	£0m
Limit on principal invested beyond year end	£60m	£60m	£60m
Complied	✓	✓	✓

Outlook for the remainder of 2017/18

The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e. after inflation) struggles in the face of higher inflation.

The Bank of England’s Monetary Policy Committee has increased Bank Rate to 0.5%, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependent and negotiations on exiting the EU cast a shadow over monetary policy decisions.

This decision is still very data dependant and Arlingclose has increased its central case for Bank Rate to 0.5%. Arlingclose’s central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

FINANCIAL IMPLICATIONS

Treasury Management Investment activity during 2017/18 has generated income of £190k to date.

RECOMMENDATIONS

Members approve the content of the report.

LEGAL IMPLICATIONS

None.

RISK ASSESSMENT

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

Not applicable.

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 10

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

1st DECEMBER 2017

REPORT OF FINANCE DIRECTOR

GENERAL RESERVES

SUMMARY

This report sets out the background and methodology used in relation to the holding of reserves by the Combined Authority.

RECOMMENDATIONS

It is recommended that the Audit & Governance Committee note the approach taken to establish the general reserves value required.

DETAIL

1. The Local Government Act requires all Authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement in the Medium Term Financial Plan. Within the statutory and regulatory framework, it is the responsibility of the chief finance officer to advise on the level of reserves that should be held and to ensure that there are clear protocols for their establishment and use.

2. CIPFA and the Local Authority Accounting Panel consider that Authorities should establish reserves based on the advice of their chief finance officers. It is stated that Authorities should take into account all the relevant local circumstances when making a judgement upon the levels of reserves they will hold.

3. When reviewing the medium term financial plan and preparing the annual budget the Combined Authority is required to consider the establishment and maintenance of reserves. There are two main type of reserves – earmarked reserves and general reserves.

4. Earmarked reserves are a build-up of funds to meet known or predicted future requirements, in terms of the Combined Authority the earmarked reserves held relate to grant funds and investment income held in order to meet the requirements of the Combined Authorities investment plan.

5. It is a requirement for the Combined Authority to hold a general reserve which can be used as a contingency to cushion the impact of unexpected events or emergencies. This reserve can also be used as a working balance to help to cushion the impact of uneven cash flows and avoid unnecessary borrowing.

6. Although there are no specific rules regarding the level of general reserves required there is a generally accepted level of 3% of annual expenditure to be held in the general reserve. Unlike tradition Local Authorities, the Combined Authority expenditure can change significantly from year to year as commitments to fund projects are made. This makes considering one year's expenditure in isolation an inappropriate benchmark for setting reserves. As expenditure is assessed over the investment plan period, it is proposed that the average expenditure across the investment plan period is used when calculating the level of general reserves. In addition to this the Combined Authority acts as a "post box" for funds from Government which are then passed onto Local Authorities, therefore we hold no risk in respect of these sums and as such are excluded from the calculation.

7. Using the above methodology it is calculated that a general reserve of £962,000 is to be established for the financial year 2018/19. Currently there is £650,000 held in the general reserve therefore an increase of £312,000 is required. Due to increased levels of returns from investments in the current financial year it is proposed that these additional funds will be used to top up the general reserve to the required level.

8. The Combined Authority will continue to monitor the estimated expenditure across the medium term and the risks associated with the associated functions. The policy will be reviewed on an annual basis in line with the preparation of the budget and review of the medium term financial plan.

FINANCIAL IMPLICATIONS

9. Note the increase in the general reserves held by the Combined Authority to £962,000 for 2018/19 which has been incorporated into the budget paper presented to cabinet.

LEGAL IMPLICATIONS

10. None

RISK ASSESSMENT

11. This reserves report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

12. None

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Tees Valley Combined Authority Audit & Governance

Forward Plan 2017/18

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
28th February 2018 at 10am	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Progress Report External Audit Strategy Memorandum (Plan) Internal Audit Charter & Audit Plan Treasury Management Strategy 2018/19 Anti-fraud & Corruption Agreement Work Programme 2018/19

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