TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Audit & Governance Committee Agenda

Date: Wednesday 24th July at 10.00am

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

Membership:
Councillor Matthew Storey – (Middlesbrough Borough Council)
Councillor Stefan Houghton – (Stockton-On-Tees Borough Council)
Councillor Lynn Pallister (Redcar & Cleveland Borough Council)
Councillor Paul Crudass (Darlington Borough Council)
Councillor Brenda Harrison (Hartlepool Borough Council)
Paul Bury (Independent member)
Christopher White (Independent member)
Jonny Munby (Independent member)

AGENDA

1. **Apologies for Absence**

2. **Declarations of Interest**

3. **Appointment of Chair and Vice Chair**

4. **Appointment to STDC Audit & Risk Committee**

5. **Notes of meeting held on 28th February 2019**
   Informal notes attached

6. **Action Tracker**
   Attached

7. **Internal Audit Plan**
   Attached (RSM)

8. **External Audit Strategy Memorandum**
   Attached (Mazars)

9. **External Audit Completion Report**
   Attached (Mazars)

10. **Annual Accounts & Financial statement**
    Attached

11. **Anti-Fraud Policy**
    Attached

12. Risk Register
Attached

13. Forward Plan and scheduling of future meetings
Attached

14. Date and Time of Next Meeting:

Thursday 26th September 2019 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 or Sharon.jones@teesvalley-ca.gov.uk

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Audit and Governance Committee
Cavendish House, Stockton-On-Tees
28th February 2019 – 2pm

Meeting was inquorate so these are informal notes of what was discussed rather than formal minutes.

Attendees

Members
Councillor Nicky Walker – Chair (Middlesbrough Borough Council)
Councillor Barry Woodhouse (Stockton Borough Council)
Christopher White (Independent member)
Paul Bury (Independent member)

Apologies for Absence
Councillor Ann Marshall (Hartlepool Borough Council)
Councillor Bob Norton (Redcar & Cleveland Borough Council)
Councillor Charles Johnson (Darlington Borough Council)
Jonny Munby (Independent member)

Officers
John Hart (Governance & Scrutiny Officer, TVCA)
Martin Waters (Head of Finance, Resources & Housing, TVCA)
Neil Cuthbertson (Senior Finance Manager, TVCA)
Ellis McBride (Business Administration Apprentice, TVCA)
Andrew Barber (Audit and Risk Manager, Stockton Borough Council)

Also in Attendance
Gareth Roberts (Senior Manager, Mazars)

AGC 6/19	**APOLOGIES FOR ABSENCE**
	Apologies for absence were received from Cllrs Ann Marshall and Bob Norton, and Independent Member Jonny Munby. The Chair announced that quorum had not been achieved, but as no votes where required she was content to proceed with the meeting. This proposal was agreed by the committee. Martin Waters, Head of Finance, suggested that the current quorate requirements may be impracticable and agreed to review this.
AGC 7/19	**DECLARATIONS OF INTEREST**
	A Declaration of Interest was received from Andrew Barber with regards to item 11.

AGC 8/19	**MINUTES OF MEETING HELD ON 20TH NOVEMBER 2018 AND 17TH JANUARY 2019**
	Consideration was given to the Minutes of the meetings held on the 20th November 2018 and the 17th January 2019. The Chair noted that as the committee was not quorate minutes could not be agreed as a true record, and deferred the matter to the next meeting of the committee.
AGC 9/19	**ACTION TRACKER**
	Consideration was given to the Action Tracker. The Chair requested elected members be given the opportunity to contribute to any induction programme devised for new members of the Committee coming forward after the Local Elections of May 2019 and Local Authority Annual Meetings. Resolved that the Action Tracker be noted.
AGC 10/19	**FEEDBACK FROM CABINET MEETINGS SINCE LAST COMMITTEE MEETING** • January 24th: Investment Plan • January 31st: Combined Authority Budget 2019/20 No comments were made by Committee.
AGC 11/19	**INTERNAL AUDIT REPORT**
	Andrew Barber, Audit and Risk Manager, introduced an Internal Audit Progress Report, highlighting; • That 33% of Audit was now complete with all outstanding actions on target to be completed by the end of the year • Full Assurance could be given on all completed Audits and the Internal Audit Service had no recommendations to make on the basis of completed Audits • Recently completed audits including Treasury Management, ICT and Remote Access all of which full assurance could be given Chris White suggested that future Progress Reports included recommendations as their absence could be perceived as a lack of depth to the analysis. Paul Bury highlighted how the risk register contained in the report needed updating. Chair gave thanks to Andrew Barber for all he has done in his time with Committee. Resolved that the report be noted.

AGC 12/19	**EXTERNAL AUDIT PROGRESS REPORT**
	Gareth Roberts briefed the Committee on why it had not been possible to complete the External Audit charter due to the need for revisions to be made to it in light of the recent acquisition of the Tees Valley Airport and land previously owned by Tata Steel at the South Tees Development Corporation site. Martin Waters, Head of Finance, briefed the Committee that the need to reconcile the Airport's accounts with the wider TVCA group accounts by the reporting deadline of May 31st would require the commissioning of additional capacity from two sources. The Chair requested that Committee members be updated on the progress of this process, including a timeline of checkpoints from now to the end of May. Chris White asked if there were any implications to accounts not being filed by the deadline. Gareth Roberts reported that there were no risks of fines, but potential reputational or political implications, and that the failure to submit accounts would have to be reflected in future Value For Money Statements. Resolved that: i. The External Audit Progress Report be noted. ii. The Committee be updated as to the reconciliation of group accounts before the next meeting of the Committee.
AGC 13/19	**TREASURY MANAGEMENT STRATEGY**
	The Head of Finance introduced the new strategy and briefed members on changes from the previous strategy. Chris White sought clarity on how approved investment limits were decided upon. Martin Waters stated this had been done on the advice of external treasury adviser's Arlingclose. Chris White also questioned interest rate predictions included in the report and requested these be reviewed. Martin Waters suggested that Arlingclose attend a future meeting of the Committee to discuss their methodology. This was agreed by the committee. The Chair commented that Revenue Budget Implications detailed in the report seemed high for Local Government standards, which are usually below 10% but forecast to rise to 31.9% by 2022-23. Martin Waters stated that Local Authorities do usually keep the levels below 10% to finance service delivery, but as TVCA is entirely investment focused it has no commitments outside of running costs. Resolved that the report be noted.
AGC 14/19	**CORPORATE RISK REGISTER**
	The Committee considered a report detailing the Tees Valley Combined Authorities updated Corporate Risk Register 2018/19.

	The Committee requested in future more commentary be provided within the report for probability scores and changes. The Chair queried why C16 was ranked 4 and not 5 in impact. Martin Waters confirmed the impact would be major but not critical to the sustainability of the Combined Authority.
AGC 15/19	**ADULT EDUCATION BUDGET RISK REGISTER**
	The Committee were provided with the Adult Education Budget Risk Register for information. The Committee requested a uniform approach to be taken across the organisation, with the Adult Education Budget Risk Register complying with the Corporate Risk Register in terminology and scoring.
AGC 16/19	**INTERNAL AUDIT ARRANGEMENTS**
	The Chair proposed a resolution to exclude the press and public from the item under the Local Government Act 1972, Section 100A(4). This was agreed by the committee. The Committee were informed of Stockton Borough Council terminating Internal Audit Services from 31st March 2019, and the proposed plans for replacement; • To propose a new Internal Audit Service based on the draft specification as presented; • TVCA to appoint new Audit by 1st April 2019; • Top 2-3 candidates invited for clarification meeting on 29th March 2019, with plans to appoint on day. Paul Bury commented on the draft specification and the need to emphasise a risk based approach. Chair Nicky Walker and Independent member Chris White to attend Clarification meeting, with an invitation be made to absent committee member Cllr Bob Norton.
AGC 17/19	**FORWARD PLAN AND SCHEDULING OF FUTURE MEETINGS**
	The Committee agreed to a draft schedule of future meetings.
AGC 18/19	**ANY OTHER BUSINESS**
	The Chair placed on record her thanks to Cllr Bob Norton, who is not standing in the forthcoming local elections, and proposed that she would formally write to the councillor in her capacity as Chair thanking him for his contribution to the committee. The proposal was supported by the committee.

AGC 19/19	DATE OF NEXT MEETING
	Friday 7th June 2019 at 10am.

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TEES VALLEY COMBINED AUTHORITY AUDIT & GOVERNANCE COMMITTEE - ACTION TRACKER –2018

Meeting	Item	Action	Owner	Target Date	Update
1st Dec. 2017	Internal Audit Report	A summary of recommendations and an Exec Summary be included in the future	SBC		COMPLETE
1st Dec. 2017	Corporate Risk Register	A&G to be included under current controls for Risk Ref CO2	TVCA		COMPLETE
31st May 2018	Corporate Risk Register	Committee requested that political uncertainty and changes to senior management be added to the Corporate Risk Register	TVCA		COMPLETE
31st May 2018	Internal Audit Report	Committee requested details of time spent on specific tasks by the Internal Audit Service	SBC		COMPLETE
31st May 2018	Annual Financial Statements	Committee requested further details of Authority's approach to investment of resources	SBC		COMPLETE
25th July 2018	Corporate Risk Register	Committee requested further details of governance arrangements for South Tees development Corporation.	STDC		COMPLETE
27th September 2018	Action Tracker	Committee requested that consideration be given of a formal introduction program for committee members, detailing TVCA audit framework.	TVCA		*To be actioned following nomination of 2019-20 committee membership at 2019 Annual General Meeting.*
27th September 2018	Internal Audit Report	Committee requested a meeting between officers and members be convened to discuss improvements to the reporting of Internal Audit activities	TVCA/SBC		COMPLETE
27th September 2018	Internal Audit Report	Committee requested a report be presented on TVCA cyber-security arrangements	TVCA		*Added to the Forward Plan*
27th September 2018	Internal Audit Report	Committee requested details of testing activities undertaken before the implementation of the new corporate payroll system.	SBC		COMPLETE
27th September 2018	Corporate Risk Register	Committee requested periodic receipt of the Risk Register for the Adult Education Devolution Plan.	TVCA		COMPLETE

27th September 2018	Corporate Risk Register	Committee requested presentational changes to the Corporate Risk Register received by committee.			COMPLETE
29th November 2018	Any Other Business	Committee be provided with briefing on TVCA Whistle-blowing procedure	TVCA	**February 28th 2019**	COMPLETE
29th November 2018	Any Other Business	Committee be provided with briefing on TVCA Declaration of Interest procedure	TVCA	**February 28th 2019**	COMPLETE
29th November 2018	Any Other Business	Committee be provided with briefing on TVCA Vision and Values exercise	TVCA	**June 7th 2019**	*To be supplied on completion*
28th November 2018	Internal Audit Report	A series of amendments to report be made, as detailed in minute AGC 26/18	SBC	**February 28th 2019**	COMPLETE (Alternative IAS service commissioned in March 2019)
28th February 2019	External Audit Report	Committee to be informed by email of progress of reconciliation of DTVA accounts with TVCA Group Accounts	TVCA	**By June 7th 2019**	
28th February 2019	Treasury Management Strategy	External advisors Arling Close to be invited to a future meeting of the committee to brief members on methodology used with regards to treasury management.	TVCA		

TEES VALLEY COMBINED AUTHORITY

Internal Audit Strategy 2019 / 2022

Presented at the Audit and Governance Committee meeting of: 24 July 2019

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RSM

EXECUTIVE SUMMARY

Our Internal Audit Plan for 2019 / 2020 is presented for consideration by the Audit and Governance Committee.

The key points to note from our plan are:

2019 internal audit priorities: Internal audit activity for 2019 / 2020 is based on analysing your corporate risk register and assurance framework, as well as other factors affecting you in the year ahead. Our detailed plan for 2019 / 2020 is included at section one.

Level of resource: The level of resource required to deliver the plan is consistent with the agreement made upon our appointment. We will be introducing the use of technology when undertaking operational audits in 2019. This will strengthen our sampling, increasing the level of assurance provided, please refer to Appendix A.

Core assurance: The key priorities of the organisation during the period have been reflected within the proposed audit coverage for 2019 / 2020 and beyond. During the development of the internal audit plan we have considered the following key documents:

- Corporate Risk Register;
- Investment Plan, 2019 / 2029; and
- Assurance Framework, 2019 / 2029.

As part of the development of this internal audit plan, we have discussed the Authority's internal audit priorities with:

- Chief Executive;
- Independent Audit and Governance Committee members;
- External audit; and
- Tees Valley Combined Authority senior management team.

CONTENTS

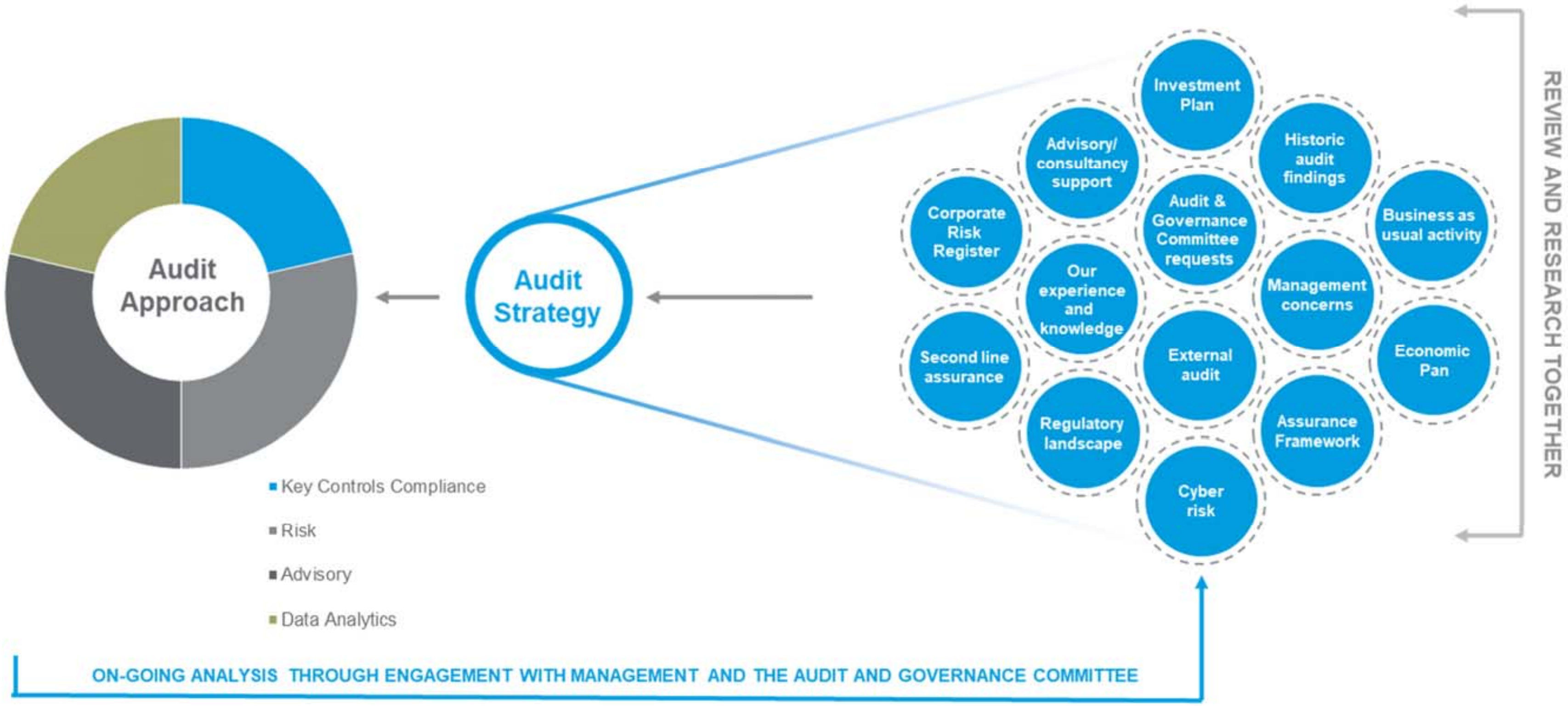
1. YOUR INTERNAL AUDIT PLAN 2019

Our approach to developing your internal audit plan is based on analysing your corporate risk register and assurance framework as well as other factors affecting Tees Valley Combined Authority in the year ahead.

Risk management processes

We have reviewed your corporate risk register with the Authority's senior management team to allow us to develop an internal audit plan / strategy that is aligned to the significant risks facing the organisation. We have used various sources of information (see Figure A below) and discussed priorities for internal audit coverage with senior management and the Audit and Governance Committee.

Figure A: Audit considerations – sources considered when developing the Internal Audit Strategy.



Based on our understanding of the organisation, the information provided to us by stakeholders, and the regulatory requirements, we have developed an annual internal plan for the coming year and a high-level strategic plan (see section two and Appendix B for full details).

2. INTERNAL AUDIT PLAN 2019 / 2020

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2019 / 2020. The table details the corporate risks which may warrant internal audit coverage. This review of your risks allows us to ensure that the proposed plan will meet the organisation's assurance needs for the forthcoming and future years. As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes: time for tracking the implementation of actions and an audit management allocation.

Objective of the review	Days	Proposed timing	Proposed Audit and Governance Committee reporting
Corporate Risks			
Risk Management Review of the Authority's risk management arrangements at strategic, project and programme levels. We will also consider how risks are managed and escalated at a Group level.	6 days	Week commencing 16 September 2019	December 2019
Programme / Project Delivery *Risk: Failure to secure agreement on the future investment priorities.* On an annual basis, we will review the management of a programme or project as detailed in the Investment Plan. The programme or project will be selected in conjunction with the Authority's management team.	8 days	Week commencing 28 October 2019	December 2019
Core Assurance			
GDPR Following the introduction of the General Data Protection Regulation (GDPR) which came into force on 25th May 2018. Our review will consider the organisation's approach to ensure GDPR requirements have been incorporated into key policies / procedures and privacy statements. No opinion will be provided as part of this review.	6 days	Week commencing 18 November 2019	December 2019
Cyber Security The review will consider the Authority's computer systems and data resilience to threats resulting from connection to the Internet. The high-level review will consider the following: • The high-level controls such as; risk assessments and contracts with third parties. • The controls to identify and mitigate software vulnerabilities.	8 days	Week commencing 25 November 2019	December 2019

Objective of the review	Days	Proposed timing	Proposed Audit and Governance Committee reporting
• The monitoring and reporting processes in respect of incidents / near misses. • User policies in respect of data security. • Open port scanning / testing of the Authority's externally facing IP addresses.			
Key Financial Controls A review to ensure that effective and efficient processes for the key financial systems are in place at the Authority and that the information generated by these systems are accurate and complete. The financial area of coverage will be agreed with management during the course of the year.	5 days	Week commencing 2 September 2019	September 2019
Declaration of Interests At the request of the Audit and Governance Committee, our review will focus on compliance with the Authority's Declaration of Interests Procedures for staff, Combined Authority Cabinet members, subcommittees and the Local Enterprise Partnership Board.	5 days	Week commencing 17 February 2020	March 2020
Follow Up of Previous Internal Audit Management Actions To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management. No actions had been raised by the Combined Authority's previous internal auditors. This review will consider management actions raised by RSM during the course of the year.	3 days	Week commencing 17 February 2020	March 2020
Management This will include: • Annual planning; • Preparation for, and attendance at, Audit and Governance Committee; • Regular liaison and progress updates; • Liaison with external audit and other assurance providers; and • Preparation of the annual opinion.	5 days	Throughout the year	-
Total	46 days		

A detailed planning process will be completed for each review, and the final scope will be documented in an Assignment Planning Sheet. This will be issued to the key stakeholders for each review.

2.1 Working with other assurance providers

The Audit and Governance Committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised, and a suitable breadth of assurance obtained.

APPENDIX A: YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Rob Barnett as your Head of Internal Audit, supported by Philip Church as your Client Manager.

Fees

Our fee to deliver the plan is in line with our tender proposal.

Core team

The delivery of the 2019 / 2020 audit plan will be based around a core team. However, we will complement the team with additional specialist skills where required.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that ""there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers." RSM was found to have an excellent level of conformance with the IIA's professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

Conflicts of interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

APPENDIX B: INTERNAL AUDIT STRATEGY 2019 / 2022

The table below shows an overview of the audit coverage to be provided through RSM's delivery of the internal audit strategy. This has been derived from the process outlined in section one above, as well as our own view of the risks facing the sector as a whole.

Assurance Provided	
Red	Red - Minimal Assurance / Poor Progress
Amber/red	Amber/red - Partial Assurance / Little Progress
Amber/green	Amber/green - Reasonable Assurance / Reasonable Progress
Green	Green - Substantial Assurance / Good Progress
Grey	Advisory / AUP
Teal	IDEA

Audit Area	Internal Audit – Third Line of Assurance (Independent review / assurance)		
	2019/ 2020	2020/ 2021	2021/ 2022
C01: Failure to secure agreement on the future investment priorities.	✓	✓ (Programme / Project Delivery)	✓ (Programme / Project Delivery)
C03: Failure to secure sufficient additional resources to fund proposed activity.			✓ (Medium Term Financial Planning)
C05: Failure to provide sufficient capacity to deliver TVCA functions.		✓ (HR: Recruitment and Selection)	
C08: Failure to pass the first Gateway Review.		✓ (Gateway Governance Review)	

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

	Internal Audit – Third Line of Assurance (Independent review / assurance)		
Audit Area	2019/ 2020	2020/ 2021	2021/ 2022
C08 - A: Failure to deliver the existing pipeline of funding commitments and achieve targeted spend.		✓ (Compliance with Funding Contract Particulars)	
C09: Failure to detect fraud.	✓ (Considered as part of each review but internal audit does not actively seek to detect fraud)	✓ (Considered as part of each review but internal audit does not actively seek to detect fraud)	✓ (Considered as part of each review but internal audit does not actively seek to detect fraud)
C12: Senior Officers leave the organisation.			✓ (Succession Planning)
Core Assurance			
Risk Management	✓		

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

	Internal Audit – Third Line of Assurance (Independent review / assurance)		
Audit Area	2019/ 2020	2020/ 2021	2021/ 2022
IT: Cyber Security	✓	✓	✓
Governance			✓
Key Financial Controls	✓	✓	✓
Declaration of Interests	✓		
GDPR	✓		
Follow Up of Previous Internal Audit Management Actions	✓	✓	✓

APPENDIX C: INTERNAL AUDIT CHARTER

Need for the charter

This charter establishes the purpose, authority and responsibilities for the internal audit service for Tees Valley Combined Authority. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Audit and Governance Committee.

The internal audit service is provided by RSM Risk Assurance Services LLP (“RSM”).

We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Core principles for the professional practice of internal auditing;
- Definition of internal auditing;
- Code of ethics; and
- The Standards.

Mission of internal audit

As set out in the PSIAS, the mission articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

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

Independence and ethics

To provide for the independence of internal audit, its personnel report directly to the Rob Barnett (acting as your Head of Internal Audit). The independence of RSM is assured by the internal audit service reporting to the Chief Executive, with further reporting lines to the Head of Finance, Resources and Housing.

The Head of Internal Audit has unrestricted access to the Chair of Audit and Governance Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

Conflicts of interest may arise where RSM provides services other than internal audit to Tees Valley Combined Authority. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the Audit and Governance Committee. The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the Audit and Governance Committee. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Audit and Governance Committee for review and approval each year before work commences on delivery of that plan.
- Implement the internal audit plan as approved, including any additional tasks requested by management and the Audit and Governance Committee.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Report regularly to the Audit and Governance Committee to demonstrate the performance of the internal audit service.

For clarity, we have included the definition of 'internal audit', 'senior management' and 'board'.

- Internal audit: a department, division, team of consultant, or other practitioner (s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
- Senior management: who are the team of individuals at the highest level of organisational management who have the day-to-day responsibilities for managing the organisation.

- Board: the highest-level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold organisational management accountable. Furthermore, "board" may refer to a committee or another body to which the governing body has delegated certain functions (e.g. an audit committee).

Client care standards

In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We proposed the following KPIs for monitoring the delivery of the internal audit service:

- Discussions with senior staff at the client take place to confirm the scope four weeks before the agreed audit start date.
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee four weeks before the agreed start date.
- The lead auditor to contact the client to confirm logistical arrangements at least 10 working days before the commencement of the audit fieldwork to confirm practical arrangements, appointments, debrief date etc.
- Fieldwork takes place on agreed dates with key issues flagged up immediately.
- A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.
- Draft reports will be issued within 10 working days of the debrief meeting and will be issued by RSM to the agreed distribution list / Sharefile.
- Management responses to the draft report should be submitted to RSM.
- Within three working days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

Authority

The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Audit and Governance Committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

The Head of Internal Audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.
- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by RSM unless specifically seconded to internal audit.

Reporting

An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Audit and Governance Committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to the Audit and Governance Committee and management summarising outcomes of audit activities, including follow up reviews.

As your internal audit provider, the assignment opinions that RSM provides the organisation during the year are part of the framework of assurances that assist the board in taking decisions and managing its risks.

As the provider of the internal audit service we are required to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the board is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by RSM Risk Assurance Services LLP at the financial year end. The results of internal audit reviews, and the annual opinion, should be used by management and the Board to inform the organisation's annual governance statement.

Data protection

Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's terms of business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

Quality Assurance and Improvement

As your external service provider of internal audit services, we have the responsibility for maintaining an effective internal audit activity. Under the standards, internal audit services are required to have an external quality assessment every five years. In addition to this, we also have in place an internal quality assurance and improvement programme, led by a dedicated team who undertake these reviews. This ensures continuous improvement of our internal audit services.

Any areas which we believe warrant bringing to your attention, which may have the potential to have an impact on the quality of the service we provide to you, will be raised in our progress reports to the Audit and Governance Committee.

Fraud

The Audit and Governance Committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Audit and Governance Committee recognises that internal audit is not responsible for identifying fraud; however internal audit will be aware of the risk of fraud when planning and undertaking any assignments.

Approval of the internal audit charter

By approving this document, the internal audit strategy, the Audit and Governance Committee is also approving the internal audit charter.

FOR FURTHER INFORMATION CONTACT

Rob Barnett
Head of Internal Audit

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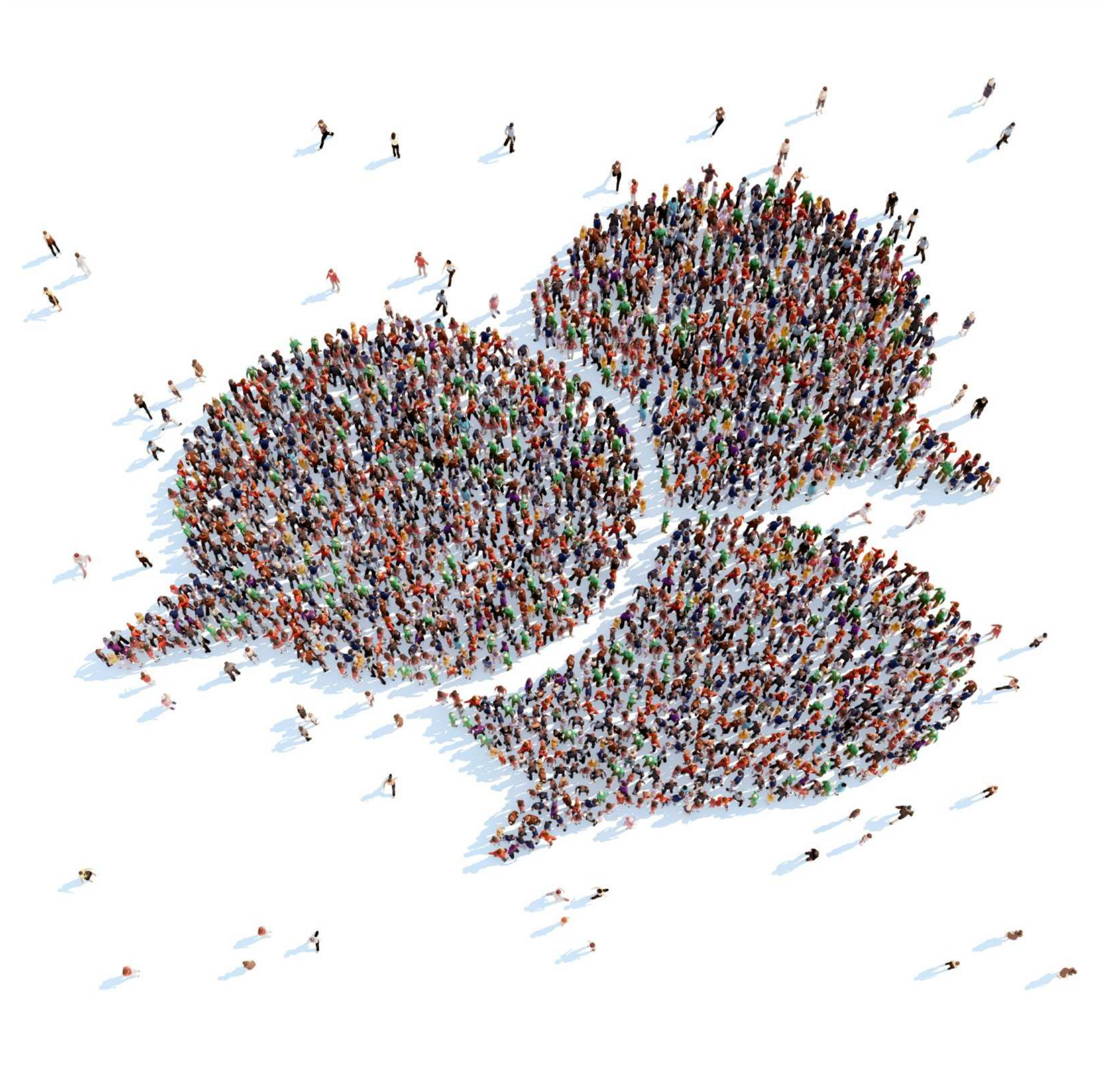
Audit Strategy Memorandum

Tees Valley Combined Authority (and Group)

Year ended 31 March 2019



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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

1 May 2019

Dear Sirs / Madams

Audit Strategy Memorandum – Year ended 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Tees Valley Combined Authority (and Group) for the year ended 31 March 2019.

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 as auditors.

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 Tees Valley Combined Authority (and Group) 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 0191 383 6300.

Yours faithfully

CWaddell

Cameron Waddell

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 Tees Valley Combined Authority Group (the Group) for the year to 31 March 2019. 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: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/

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/Group for the year.

Reporting to the NAO

We report to the NAO in respect of the Authority's/Group's Whole of Government Accounts (WGA) submission in line with the NAO Group Instructions.

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/Group 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 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. However our audit 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/Group 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.

For the purpose of our audit, we have identified the Audit and Governance Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

Engagement Lead / Partner

- Cameron Waddell
- cameron.waddell@mazars.co.uk
- 0191 383 6300

Senior Manager

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

Assistant Manager

- 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.

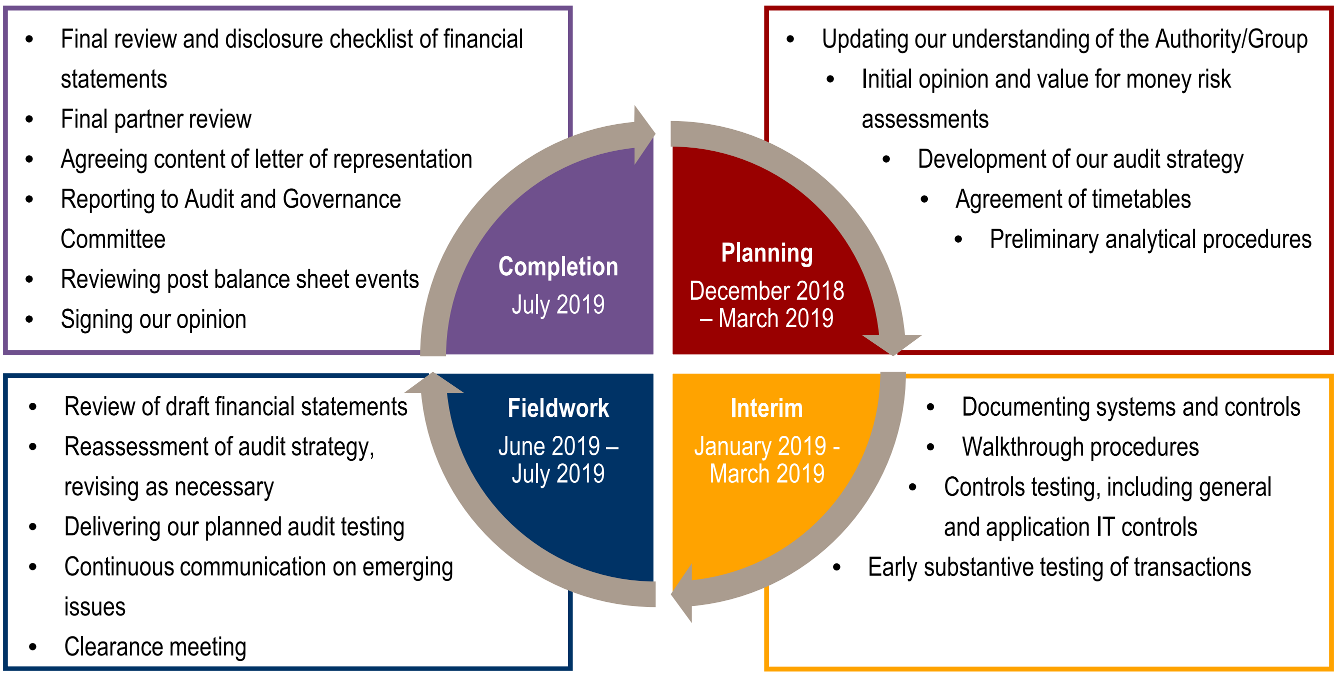
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. 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.



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 the work of internal audit, we will evaluate the work performed by your internal audit team 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/Group'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	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Property, plant and equipment valuation	The requirement as to whether to appoint a expert is currently being considered by management, and as such this remains to be confirmed (at Group level)	NAO's consulting valuer (Gerald Eve)
Financial instrument disclosures	Arlingclose	~

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Authority/Group 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/Group and our planned audit approach.

Items of account	Service organisation	Audit approach
Payroll and General Ledger	Stockton-on-Tees Borough Council	Review of and access to records and information held at the Authority, and at the service organisation where required.

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

We are responsible for the audit of the Tees Valley Combined Authority Group consolidation.

The Tees Valley Combined Authority consolidated group is made up of the following components:

- Tees Valley Combined Authority;
- South Tees Development Corporation Group (made up of South Tees Development Corporation and South Tees Developments Limited); and
- Goosepool 2019 Limited/ Durham Tees Valley Airport Limited.

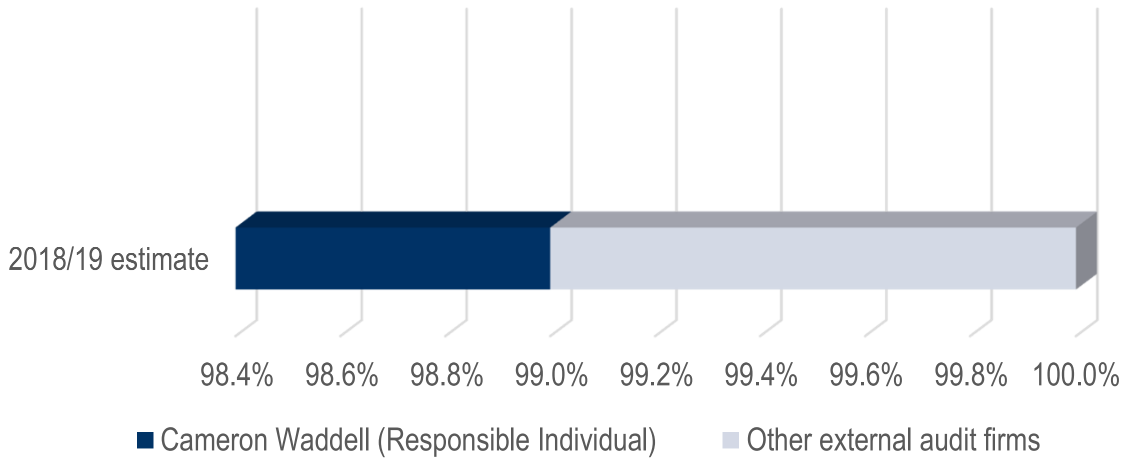
An analysis of the group is shown below, setting out:

- an overview of the type of work to be performed on the financial information of the components; followed by
- the percentage of the components of the group audited directly by Cameron Waddell (Responsible Individual/Partner for the Group and the Authority, and South Tees Development Corporation Group), and the percentage audited by other audit firms (Goosepool 2019 Limited/ Durham Tees Valley Airport Limited).

Planned approach by percentage of group (using operating expenditure)

Year	Full scope audit	Limited or specific review	Other audit procedures
2018/19 estimate	>99%	0%	<1%

Percentage of group (using operating expenditure) audited by responsible individual



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:

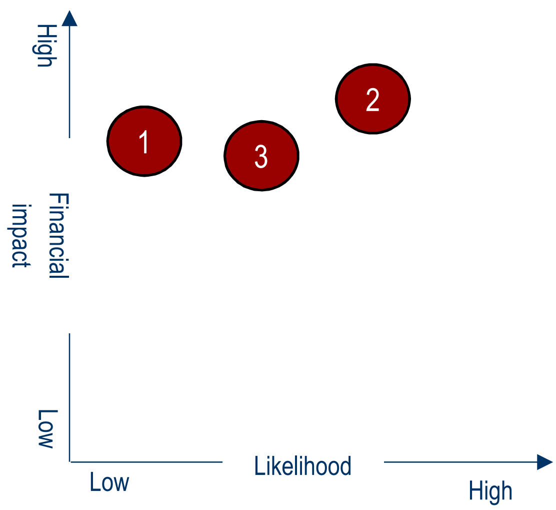
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement 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, 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 table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



	Risk
1	Management override of control (Authority and Group)
2	Property, plant and equipment valuation (Group)
3	Defined benefit liability valuation (Authority and Group)

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or 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 (Authority and Group)** 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	**Property, plant and equipment valuation (Group)** The 2018/19 Group financial statements are likely to contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group PPE. The Authority is considering whether a valuation expert is required to provide information on valuations. Where required, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.	We will consider the Authority's arrangements for ensuring that PPE values are reasonable and will engage our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Authority's valuer, if appointed. We will also assess the competence, skills and experience of the valuer. Where necessary we will also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.
3	**Defined benefit liability valuation (Authority and Group)** The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	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 the NAO.

5. VALUE FOR MONEY

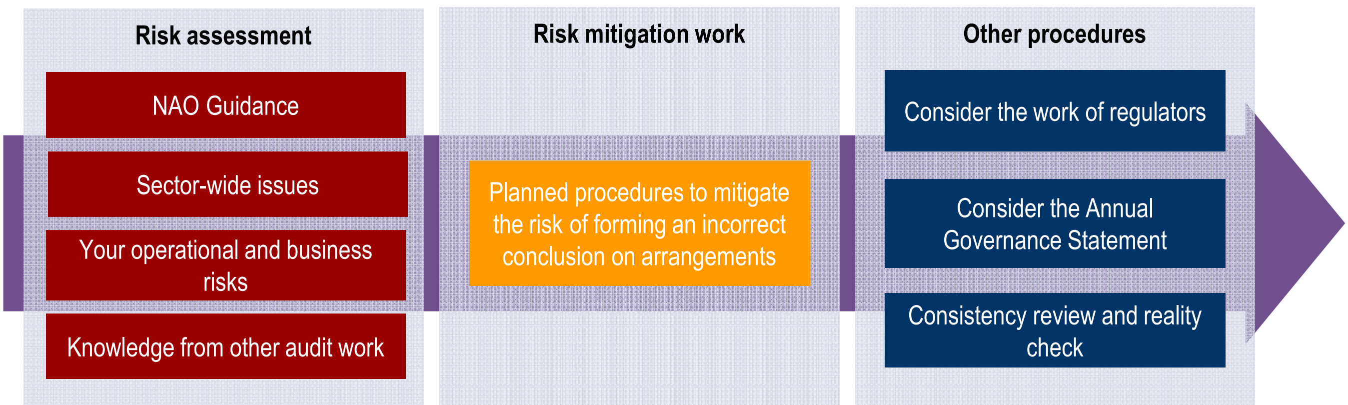
Our approach to Value for Money
We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall 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.

A summary of the work we undertake to reach our conclusion is provided below:



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) 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 2018/19 financial year, we have identified the following significant risk(s) to our VFM work:

Description of significant risk	Planned response
Informed decision making As part of agreeing its investment plan in 2018/19, the Authority Cabinet agreed to purchase Durham Tees Valley Airport.	We will review the business case presented to Cabinet to consider whether it contained relevant information to enable an informed decision to be made by Cabinet; so as to allow a reasonable, informed decision to be made.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Authority's/Group's appointed auditor

We communicated our proposed fee of £23,100 in our fee letter dated 4 April 2018, which was in line with the scale fee set by PSAA. In the same letter we reported that we would review the fee at the planning stage, due to the changing nature of the group's components. Having now undertaken our initial planning work, we are proposing to vary the 2018/19 audit fee, subject to agreement from PSAA.

Service	2017/18 fee	2018/19 fee
Code audit work	£30,000	£23,100
Plus; additional fees in respect of audit of larger and more complex group consolidation	£0	£6,038*
Total fees for Code audit work	£30,000	£29,138

* Subject to agreement by PSAA.

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 are appointed as the external auditor of South Tees Development Corporation Group (which is made up of South Tees Development Corporation and South Tees Developments Limited).

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 ethics 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 Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell 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

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s) Authority	Initial threshold (£'000s) Group
Overall materiality	£2,190	£2,252
Performance materiality	£1,752	£1,801
Specific materiality:		
• Related Party Transactions	£100	£100
• Senior manager remuneration	£44	£44
Trivial threshold for errors to be reported to the Audit and Governance Committee	£65	£67

Materiality
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.

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.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

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

We consider that gross revenue expenditure at the surplus or deficit on provision of services level is 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 at the surplus or deficit on provision of services level.

Based on 2018/19 budget information we anticipate the overall materiality for the year ended 31 March 2019 to be in the region of £2.190m for the Authority and £2.252m for the Group (£1.537m in the prior year for the Authority and Group).

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

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

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 £65k for the Authority and £67k for the Group based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit and Governance Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

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 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Authority's/Group'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/Group will continue to measure the majority of its financial assets at amortised cost.

For Authorities/Groups 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 Authorities/Groups general fund balance.

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

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2019/20	We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 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 significant work being required across the sector in order to identify all leases to which the bodies (including subsidiaries) are party to.

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Audit Completion Report

Tees Valley Combined Authority (and Group)

Year ended 31 March 2019

MAZARS

CONTENTS

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Audit and Governance Committee
Tees Valley Combined Authority
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TS17 6QY

11 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum issued on 1 May 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

CWWaddell

Cameron Waddell
For and on behalf of Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Tees Valley Combined Authority ('the Authority') and it's subsidiaries ('the Group') for the year ended 31 March 2019, and forms the basis for discussion at the Audit and Governance Committee meeting on 24 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

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

Status of our work

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

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, which has a deadline of 13 September 2019. The Authority is below the threshold requiring a detailed review of your WGA submission, and we expect to be able to provide the information required by NAO at the conclusion of our audit work, well ahead of the formal deadline.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. No objections or questions from local electors have been received.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status impact	Description of outstanding matters
Note 20; Grant income & Cash flow statement Debtors	Green	We are finalising our work on this note, and on the Cash flow statement. We have requested copies of the loan agreements several times that support entries between the Authority and its subsidiaries, however, we have not yet received them.
Review of the component auditors work on Goosepool Group	Amber	The component auditor for Goosepool Group (which incorporates Goosepool and Durham Tees Valley Airport), and which is a component in the TVCA Group has not yet returned our group instructions due to a delay in their engagement procedures. Audit work on the Goosepool Group did not commence until early July, and as such we have not yet been able to review the component auditor's audit work on the Goosepool Group. We anticipate this may be available to us to review w/c 15 July.
Group consolidation	Amber	Our work on the consolidation of the statements of the Authority, South Tees Development Corporation Group, and Goosepool Group to form the TVCA Group Statements is on track but is ongoing. We have deliberately left this work until towards the end of our programme as that is when the majority of our other work is complete and as such our review is better informed.
Annual Governance Statement	Green	We await a copy of the Head of Internal Audit Opinion before we can complete our review of the draft Annual Governance Statement.
Fraud, Laws and regulations, Provisions and Contingencies and Going Concern	Green	Our request to those charged with governance, issued in March 2019 remains unanswered. We have chased this several times since May 2019. This impacts on us concluding our work in relation to Fraud, Laws and regulations, Provisions and Contingencies, and Going Concern.
Pension-related entries	Green	We have not yet received the information we require from the local government pension fund administering authority's auditor. As soon as it is received we will review it and consider the assurance and implications for our audit.
Events after the Balance Sheet date	Green	Our review is ongoing up until the date of signing the auditor's report (the Opinion).
Financial Statements (post-audit)	Green	Review and closure processes, including checking the amended version of the financial statements, including reviewing adjustments made in TVCA group relating to audit adjustments arising from the audits of the groups subsidiaries.

Status

- Red: Likely to result in material adjustment or significant change to disclosures within the financial statements
- Amber: Potential to result in material adjustment or significant change to disclosures within the financial statements
- Green: Not considered likely to result in material adjustment or change to disclosures within the financial statements

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

1. EXECUTIVE SUMMARY

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum issued May 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £2.190m for the Authority and £2.252m for the Group using a benchmark of 2% of Gross Operating Expenditure at the surplus or deficit on provision of services level. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1.763m for the Authority and £1.865m for the Group, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee, at £52.9k for the Authority and £55.9k for the Group based on 3% of overall materiality. Performance Materiality was set at £1.411m for the Authority and £1.492m for the Group.

Misstatements and internal control recommendations

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

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

2. SIGNIFICANT FINDINGS

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

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

Significant risks and key areas of management judgement

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

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

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Property, plant and equipment valuation (Group)	The 2018/19 Group financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group PPE. The Authority engaged a valuation expert to provide information on valuations. There remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We therefore identified the revaluation of PPE to be an area of risk.
	How we addressed this risk We relied on the work of the component auditor for TVCA Group's subsidiary; Goosepool Group (which incorporates Goosepool and DTVA). We considered the reasonableness of the chosen classification category of the PPE under the Cipfa Code for the TVCA Group statements, and undertook testing of the adjustment required to reclassify the PPE appropriately under the Code. We assessed the competence, skills and experience of the Authority's valuer, and are engaging our own expert to enable us to assess the reasonableness of the valuation of the assets being valued by the Authority's valuer.
	Audit conclusion This area of work is ongoing. The initial valuation of the Group PPE flows from the audit of Goosepool Group undertaken by a component auditor, and as described in section 1, this is ongoing. As the TVCA Group prepare their financial statements under the Cipfa Code (which is a different reporting framework to the subsidiaries), as soon as the information was made available to us by management (7 June 2019), we reviewed the classification category chosen by management for TVCA Group, being a single infrastructure asset for the whole of the Goosepool and DTVA assets in the TVCA Group statements. We considered that it was not appropriate to classify as one asset in the TVCA group statements because some of the assets at the airport site are not directly linked to the operations of the airport, and as such they should not be classified as infrastructure. This is an important distinction because infrastructure assets are carried at cost under the Cipfa Code, where as other classifications such as investment property and operational PPE are not and require revaluation. Management have therefore undertaken work to reclassify and revalue land and property that was not related to the airport's operations as operational PPE. We will review this amendment, including engaging our valuation expert if we consider it necessary, as part of reviewing the amendments to the financial statements. Subject to satisfactory completion of our outstanding work, our work has provided the assurance we sought in each of these areas. Adjustments will be required to the TVCA group statements and we will report them in our follow up letter once our work is complete for this area, as described above.

2. SIGNIFICANT FINDINGS (CONTINUED)

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

2. SIGNIFICANT FINDINGS (CONTINUED)

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

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

Draft accounts were signed by the Authority's Chief Financial Officer on 31 May 2019, but were not published on that date. They were published on the start of the next working day, being 3 June 2019. They were of a good quality overall, but we noted in our initial review of the draft statements a number of consistency, grammatical or other typographical matters that we would have expected to be identified in the Authority's own internal quality review prior to publication.

Significant matters discussed with management

Legal judgments in relation to pensions

There have been significant issues this year relating to accounting for pensions. These issues are not specific to the Authority/Group, but are national issues impacting on all local government and related bodies. The most significant issue has been the impact of what is known as the McCloud judgement.

The nature and impact of the McCloud judgement was not referenced in the Authority's/Group's draft financial statements. It relates to claims of discrimination in respect of protections offered to some, but not all, pension scheme members as part of reforms to public sector pensions. In December 2018, the Court of Appeal ruled in a test case that this did amount to unlawful discrimination. At the time the Council was producing its draft financial statements, the Government intended to appeal to the Supreme Court and the outcome was uncertain.

During the audit period, the Government has not been granted leave to appeal, meaning that some form of restitution across all public sector pension schemes seems more certain, requiring the estimated impact of this to be reflected in the pension disclosures in the financial statements, subject to materiality considerations.

The other issue relates to Guaranteed Minimum Pension (GMP) indexation and equalisation, which relate to the move to a single-tier new State Pension and equalisation of the GMP benefits between males and females, which has been accounted for to varying degrees by each actuary.

For each of these issues, our approach has been to suggest that the Authority engages with the actuary of the pension scheme, to assess the potential impact of these issues, to see whether the impact is material, and if so, to make amendments to the financial statements.

Management have determined, using available information that the issues are not material and as such do not wish to amend the financial statements. GMP has been assessed as trivial, and as such no further action has been taken. The impact of McCloud is above trivial, but not material, and as such it is included in section 4 as an unadjusted misstatement.

We have not had any other discussions with management which were not routine and in the process of us gathering our audit evidence and to challenge management judgements.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant difficulties during the audit

We had been discussing with management since early 2019 the need for clarity on the proposed classification of the Group PPE, as that could then lead to additional work, such as valuation exercises, as noted in the significant risks table above. We did not receive this information until early June 2019, and this meant additional work including engaging our own external expert was then required at short notice in the final accounts period.

As a result of our liaison with the component auditor for Goosepool and DTVA (which we have undertaken regularly from their appointment), it became clear in late June, 4 weeks after the start of our audit, that there was a lack of clarity about the consolidation process for Goosepool and DTVA and exactly what the component auditor was being asked to audit. This should have been made clear by management from the start, and it meant a lack of clarity on the audit assurance we may be able to place on the component auditor, i.e. whether it was the audit of DTVA and Goosepool as single entities, or a consolidated Goosepool group, as we had been led to believe when we undertook our planning and as set out in the working papers provided to us in early June. This was an important distinction because material adjustments, including reliance on expert valuations, are made at the level of consolidation of Goosepool group that require. This matter was finally clarified on 9 July.

Our annual requests to management and those charged with governance were issued in March 2019. We requested a response by 31 May 2019. We received management's response on 5 July 2019, but are still awaiting a response from those charged with governance.

Each of these matters has caused delay in the progress of our work at the post statements stage.

During the course of the audit we did not encounter any other significant difficulties and we have had the full co-operation of management.

Wider responsibilities

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

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

We have not exercised any of these powers as part of our 2018/19 audit.

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

3. INTERNAL CONTROL RECOMMENDATIONS

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

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

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

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	None
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	None
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	None

Our work has not identified any significant deficiencies in our 2018/19 audit to report at this stage.

Follow up of previous internal control points
We did not identify any matters in the prior year to follow up.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £52.9k for the Authority and £55.9k for the Group.

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

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

Unadjusted misstatements 2018/19

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Pension Reserve (Group/TVCA)			197/196	
	Cr: Other long term liabilities (Group/TVCA))				197/196
	Estimated impact of the McCloud judgement, for which management has decided not to adjust.				
	Total unadjusted misstatements (Group/TVCA)			**197/196**	**197/196**

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
There are no adjusted misstatements to report that impact on the CIES or balance Sheet at the time of writing this report.				

Other primary statement adjustments

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

- Interest received in the Group and TVCA Cashflow statement required amendment to 687k, from 600k.

Disclosure amendments

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

- Note 3 Accounting statements that have not yet been adopted; required amendment to reflect the correct standards;
- Note 4 Critical judgements; required amendment as draft statements reported none, which in our view was incorrect;
- Note 8 Employees remuneration; required amendment as the disclosure for the recharge for the STDC Director of Finance was incorrect;
- Note 9 Capital Adjustment Account; required amendment as £375k was omitted from 'Revenue expenditure funded from capital under statute';
- Note 20 Grant Income; required amendment to disclose capital and revenue grants receipts in advance;
- Note 21 Financial instruments; TVCA and Group Credit Risk table required amendment in classification between short and long term for the 2017/18 comparative to ensure consistency with the 2017/18 Balance Sheet;
- Note 23 Termination Costs; required amendment to separately report TVCA and TVCA group;
- Disclosures were required in respect of the new standard being introduced in 2018/19 IFRS9 that were omitted from the draft statements;
- A leasing note as lessor is required to disclose the lease arrangements in place at TVCA Group level;
- Accounting policies were omitted for PPE and intangible assets held at Group level; and
- A number of other heading, grammatical or consistency amendments were required including clarity about whether notes referred to TVCA, or TVCA group or both.

5. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

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

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

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

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

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	• Constitution in place which is available on the Authority's website, which includes financial regulations and Assurance Framework, Delegation to officers and Code of Conduct. • Strategic Economic Plan (SEP) 2016-2026 and Investment Plan for 2019-2029 in place, available on the Authority's website. • No data quality issues in respect of performance information we are aware of. • Management team in place. Audit and Governance Committee meets on a quarterly basis, and oversees internal and external audit, risk management and treasury management. • Medium term planning is undertaken and budget plans are in place; current Medium Term Financial Plan (MTFP) covers the period 2019/20 to 2022/23, and is updated at least annually. • Periodic reporting to Cabinet in the year. • Management assurance framework in place together with risk register. • Devolution deal Implementation Plan incorporates high level risks. • Internal Audit in place. • 2017/18 draft Annual Governance Statement produced, and final to be approved by Cabinet.	Yes
Sustainable resource deployment	• MTFP in place for the period the period 2019/20 to 2022/23. • Nature of the Authority's funding and expenditure does not indicate any significant risk to achievement of strategic priorities in the short term. Potential Brexit risks being monitored. • Authority does not have any significant assets of its own and no items meet the capitalisation threshold and hence no Property, Plant and Equipment, and as such does not have an 'asset register', but does maintain a list of equipment, IT etc. Group assets are subject to separate arrangements at entity level. • Significant element of the Authorities funding is being used to deliver capital projects. These assets are however not held by the Authority. SEP and Investment Plan identifies future large scale capital schemes/priorities. • HR and payroll functions provided by Stockton BC and HR policies and procedures in place from creation. The Authority is continuing to review capacity as its responsibilities continue to further develop.	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	• Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 Local Authorities in the Tees Valley and other public and private organisations. • Authority structure includes the Tees Valley Local Enterprise Partnership (LEP). LEP members are drawn from a wide range of other public bodies and private companies. • SEP, Investment Plan and website identify organisations that the Authority is working with in order to achieve its strategic priorities. • The Authority has written procedures for procuring products and services, which are within its Constitution (part 6).	Yes

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk. The work we carried out in relation to the significant risk is outlined below.

Risk	Work undertaken	Conclusion
Informed decision making		
As part of agreeing its investment plan in 2018/19, the Authority Cabinet agreed to purchase Durham Tees Valley Airport.	We reviewed the business case presented to Cabinet to consider whether it contained relevant information to enable a reasonable, informed decision to be made.	We concluded that the business case to purchase the airport was extensive and set out key issues associated with the proposed purchase, with external advice having been obtained for areas such as legal advice and valuations (including the key assumptions made by the valuers in arriving at their various valuations reported), so that an informed decision could be made by Cabinet. We were therefore satisfied that the risk we identified at the planning stage had been mitigated and that adequate arrangements had been put in place in respect of Cabinet making an informed decision.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

[Date]

Dear Sirs

Tees Valley Combined Authority (and Group) - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the statement of accounts for Tees Valley Combined Authority (and Group) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

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

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

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

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

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

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

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Authority's and Group's financial position, financial performance and cash flows.

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

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

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

Impairment review

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

Charges on assets

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

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

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

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

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

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

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

Yours sincerely

Chief Financial Officer

Date……………………

APPENDIX B
DRAFT AUDITOR'S REPORT

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

Report on the financial statements

Opinion
We have audited the financial statements of Tees Valley Combined Authority ('the Authority') and its subsidiaries ('the Group') for the year ended 31 March 2019, which comprise the Group Movement in Reserves Statement, the TVCA Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the TVCA Comprehensive Income and Expenditure Statement, the Group & TVCA Balance Sheet, the Group & TVCA Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:
- give a true and fair view of the financial position of the Authority and the Group as at 31st March 2019 and of the Authority's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's and Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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

We have nothing to report in this regard.

Responsibilities of the Chief Financial Officer for the financial statements
As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Chief Financial Officer is also responsible for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Authority is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Financial Officer is responsible for assessing each year whether or not it is appropriate for the Authority and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

APPENDIX B
DRAFT AUDITOR'S REPORT

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

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

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

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

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

We have nothing to report in these respects.

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

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Tees Valley Combined Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion
We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

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

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

APPENDIX B
DRAFT AUDITOR'S REPORT

Use of the audit report

This report is made solely to the members of Tees Valley Combined Authority, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

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

[*Signature*]

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

XX July 2019

APPENDIX C
INDEPENDENCE

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

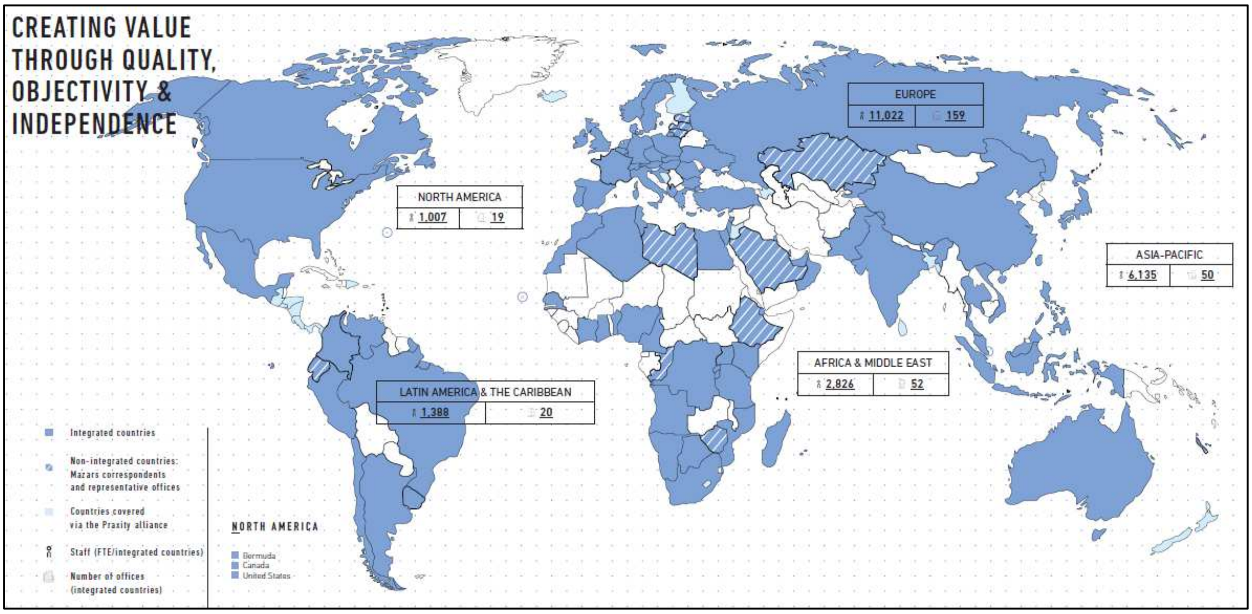
We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

MAZARS AT A GLANCE

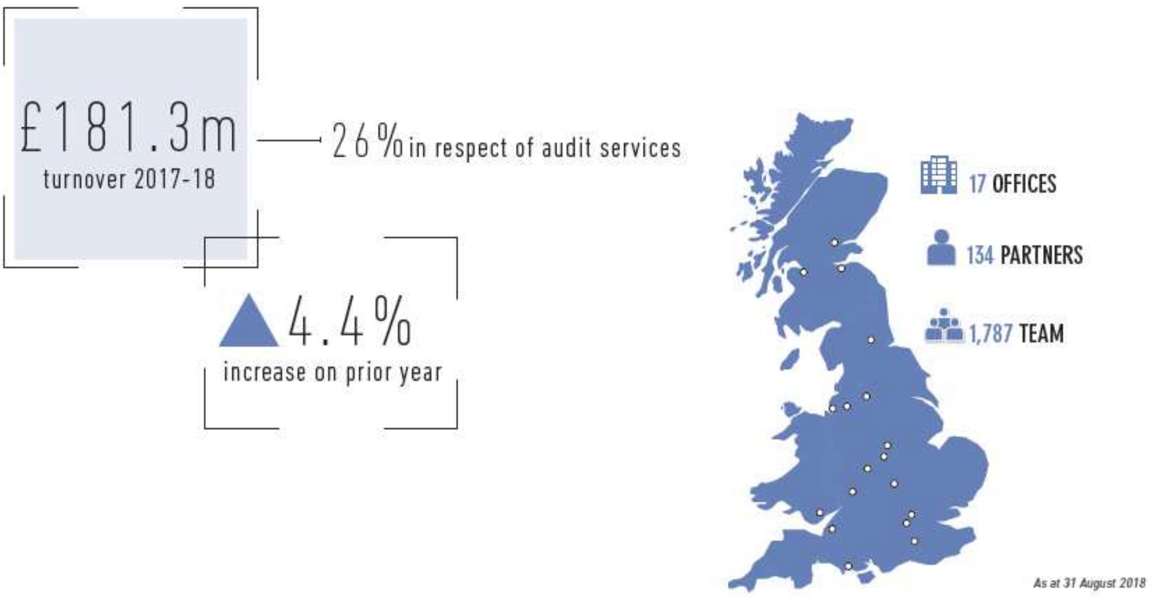
Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



Mazars in the UK



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TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 10

REPORT TO THE TEES VALLEY AUDIT AND GOVERNANCE COMMITTEE

24th JULY 2019

REPORT OF HEAD OF FINANCE AND RESOURCES

ANNUAL FINANCIAL STATEMENTS 18/19

SUMMARY

To present to Members of Audit and Governance Committee the latest draft Financial Statements for 2018/19.

RECOMMENDATIONS

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

DETAIL

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

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

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

4. The attached Statement of Accounts are the latest draft and are currently being audited by Mazars LLP.

FINANCIAL IMPLICATIONS

5. None

LEGAL IMPLICATIONS

6. None

CONSULTATION & COMMUNICATION

7. The draft accounts were published on the Combined Authorities website on 3rd June 2019. During this period the public can examine the accounts, question the auditor and to make objections.

Name of Contact Officer: Martin Waters
Post Title: Head of Finance & Resources
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CONTENTS

Narrative Report

Introduction

Welcome to the Tees Valley Combined Authority Group's Annual Statement of Accounts for 2018/19. The Statement of Accounts contains all the financial statements and disclosure notes required by statute. The statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. This Annual Statement of Accounts will for the first time incorporate Goosepool 2019 as part of the group accounts, alongside South Tees Development Corporation.

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

Strategy and Priorities

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

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

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

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

Narrative Report

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

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

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

Achievements in Year

2018/19 was only the third operarional year for TVCA and we have successfully built on the work undertaken in the previous years to prepare the organisation to undertake new devolved responsibilities. We have developed strategies and plans to shape future priorities and investments to meet our aims and objectives. Spend has been accelerated to begin delivery on a number of projects and programmes whilst also committing to new projects which match our ambitious plans. We have continued to strive for further devolved powers whilst securing additional funding from Government to fund our investments. A summary of these can be found below:-

- During the year we have invested £109million on asset purchases, programmes, projects, grant schemes and development funding for future projects.
- In the past year we have secured an additional £16.5million in Government funding for a much-needed overhaul to our road and rail network, and we will continue to deliver our transformative vision for the future of transport in our area.
- Official confirmation was received that from August 2019 the Combined Authority would take control of the devolved Adult Education Budget to the value of £29.4million per year.
- In January 2019 the Authority agreed a £588million 10 year investment plan which set out the transformational investments that would be committed to for the period up to 2029 in order to achieve the ambitions set out in the Strategic Economic Plan.
- In February 2019, and as part of the 10 year investment plan, Durham Tees Valley Airport was brought back into public ownership. This will secure for the Tees Valley an internationally connected airport and aviation orientated business park which will continue to support indigenous economic growth and act as a catalyst for enhanced inward investment and tourism activity.
- South Tees Development Corporation completed the Purchase of 1,420 acres of land during the year which represents over 50% of developable land in the Development Corporation area. As a direct result of the purchase £14million of Government funding was unlocked allowing early redevelopment of part of the site to take place to attract new business and investment
- In the Government's 2018 Budget the South Tees Development Corporation site became a designated Special Economic Area which would allow for the local retention of additional business rates growth.

Narrative Report

Looking Ahead Including Risks and Opportunities

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

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

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

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

Brexit will have profound implications for the UK, and for the Tees Valley specifically. As one of a small number of areas which qualify for an enhanced level of access to European Funding, the resources available for investment in our economy are at particular risk. However there are also opportunities to develop new methods of funding, which could mean that Brexit actually improves the impact of regional economic development funding for areas such as ours. We will continue to engage with Government on future funding plans post Brexit.
In order to achieve our aims of delivering better outcomes for local people will we continue to build and maintain relationships with key local partners. We will engage with the business community utilising our working relationship with the Local Enterprise Partnership members and key partners.

Key Sections Included in the Statement of Accounts

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

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

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

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

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

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

Narrative Report

Borrowing and Lending Arrangements

During 2018/19, the Combined Authority did not utilise its powers to borrow for investment and therefore have no loans, however the approved 10 year investment plan sets out the future requirements for borrowing in order to deliver transformational change to the region.

The majority of the Authority's surplus cash is invested in short-term bank deposits, and money market funds. At the end of the financial year the Authority held investments totalling £34.5m. During the year the Authority has generated £647k in interest from Treasury management activities as a direct result of securing higher yielding investments in the year.

Retirement Benefits (IAS 19)

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

AON Hewitt, an independent firm of actuaries, has calculated the Authority's net liability position as £2.51million on the Local Government Pension Scheme as at 31st March 2019. Employer's contributions to the pension fund during 2018/19 were charged at 15.9% of total pensionable employee pay in line with actuarial advice. Further information on retirement benefits is available in Note 22 of the Notes to the Core Financial Statements.

Further Information

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

Group Movement in Reserves Statement for the year ended 31 March 2019

This statement shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Groups services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Combined Authority Reserves**	Authority Share of Subsidiaries Reserves	**Total Reserves attributable to the Authority**	Minority Interest	**Total Group Reserves**
	£000s	£000s	**£000s**	£000s	**£000s**	£000s	**£000s**	**£000s**	**£000s**
Movement in reserves during 2017/18									
Balance at 31 March 2017 brought forward	46,746	40,570	**87,316**	(1,890)	**85,426**	-	**85,426**	-	**85,426**
Total Comprehensive Income and Expenditure	7,181		**7,181**	49	**7,230**	3,849	**11,079**	-	**11,079**
Adjustments between accounting basis & funding basis under regulations	(5,508)	5,937	**429**	(429)	**-**	-	**-**	-	**-**
Increase/Decrease in Year	1,673	5,937	**7,610**	(380)	**7,230**	3,849	**11,079**		**11,079**
Balance at 31 March 2018 carried forward	48,419	46,507	**94,926**	(2,270)	**92,656**	3,849	**96,505**		**96,505**
Re-Allocation of Sub Reserves	2,927	925	**3,852**	(3)	**-**	(3,849)	**-**	-	**-**
Group Reserves	51,346	47,432	**98,778**	(2,273)	**92,656**	-	**96,505**	-	**96,505**
General Fund analysed over:									
Amounts earmarked (Note 8)	50,313								
Amounts uncommitted	1,033								
Total General Fund Balance 31 March 2018	51,346								
Movement in reserves during 2018/19									
Balance at 31 March 2018 brought forward	48,419	46,507	**94,926**	(2,270)	**92,656**	3,849	**96,505**	-	**96,505**
Balance at acquisition DTVA - 15 February 2019			**-**		**-**		**-**	1,815	**1,815**
Balance at share issue of Goosepool Group 15 March 2019			**-**		**-**		**-**	(73)	**(73)**
Total Comprehensive Income and Expenditure	(6,658)	-	**(6,658)**	282	**(6,376)**	(153)	**(6,529)**	(201)	**(6,730)**
Adjustments between Group Accounts and Authority Accounts	(229)	-	**(229)**	-	**(229)**	229	**-**	-	**-**
Adjustments between accounting basis & funding basis under regulations	14,086	(13,591)	**495**	(495)	**-**		**-**	-	**-**
Increase/Decrease in Year	7,199	(13,591)	(6,392)	(213)	(6,605)	76	(6,529)	1,541	(4,988)
Balance at 31 March 2019 carried forward	55,618	32,916	**88,534**	(2,483)	**86,051**	3,925	**89,976**	**1,541**	**91,517**
Re-Allocation of Sub Reserves	1,611	2,509	**4,120**	(195)	**3,925**	(3,925)	**-**	-	**-**
Group Reserves	**57,229**	35,425	**92,654**	(2,678)	**89,976**	-	**89,976**	1,541	**91,517**
General Fund analysed over:									
Amounts earmarked (Note 8)	56,218								
Amounts uncommitted	1,011								
Total General Fund Balance 31 March 2019	**57,229**								

TVCA Movement in Reserves Statement for the year ended 31 March 2019

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000s	£000s	£000s	**£000s**	**£000s**	**£000s**
Movement in reserves during 2017/18						
Balance at 31 March 2017 brought forward	46,746	-	40,570	87,316	(1,890)	85,426
Total Comprehensive Income and Expenditure	7,181			7,181	49	7,230
Adjustments between accounting basis & funding basis under regulations	(5,508)		5,937	429	(429)	**-**
Increase/Decrease in Year	1,673		5,937	7,610	(380)	7,230
Balance at 31 March 2018 carried forward	48,419		46,507	94,926	(2,270)	92,656
Movement in reserves during 2018/19						
Balance at 31 March 2018 brought forward	48,419	-	46,507	**94,926**	(2,270)	**92,656**
Total Comprehensive Income and Expenditure	(6,887)	-	-	**(6,887)**	282	**(6,605)**
Adjustments between accounting basis & funding basis under regulations	14,086	-	(13,591)	**495**	(495)	**-**
Increase/Decrease in Year	**7,199**	**-**	**(13,591)**	**(6,392)**	**(213)**	**(6,605)**
Balance at 31 March 2019 carried forward	**55,618**	**-**	**32,916**	**88,534**	**(2,483)**	**86,051**
General Fund analysed over:						
Amounts earmarked (Note 8)	54,656					
Amounts uncommitted	962					
Total General Fund Balance at 31 March 2019	**55,618**					

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2019

The Comprehensive Income and Expenditure Statement (CIES) shows the economic cost in the year of providing services in accordance with generally accepted accounting practices.

2017/18				2018/19		
£000s	**£000s**	**£000s**		**£000s**	**£000s**	**£000s**
Expenditure	**Income**	**Net**		**Expenditure**	**Income**	**Net**
3,130	(1,541)	**1,589**	Business Growth	9,425	(4,461)	**4,964**
3,937	(67)	**3,870**	Research Development Innovation & Energy	14,709	(14,166)	**543**
6,382	(1,216)	**5,166**	Education Employment & Skills	5,347	(2,075)	**3,272**
685	(474)	**211**	Culture	4,626	(1,375)	**3,251**
23,338	(19,361)	**3,977**	Transport	22,535	(18,677)	**3,858**
10,706	(3,593)	**7,113**	Enabling Infrastructure	5,096	(1,236)	**3,860**
1,006	(1,176)	**(170)**	Project Development	4,020	(1,468)	**2,552**
4,492	(5,583)	**(1,091)**	Core Running Costs	7,579	(6,266)	**1,313**
16,628	(16,628)	**-**	Concessionary Fares	16,756	(16,756)	**-**
5,152	50	**5,202**	SSI Related Schemes Not in the Investment Plan	1,567	-	**1,567**
-	-	**-**	Place	1,250	-	**1,250**
1,411	(9,898)	**(8,487)**	Not Directly Attributable to Themes	-	(12,460)	**(12,460)**
76,867	**(59,487)**	**17,380**	**Cost Of Services**	**92,910**	**(78,940)**	**13,970**
			Financing and Investment Income and Expenditure:			
176	(136)	**40**	Net interest on the net defined benefit liability/asset	205	(160)	45
	(462)	**(462)**	Interest receivable and similar income	-	(760)	(760)
			Taxation and Non-Specific Grant Income:			
-	-	**-**	Non-ringfenced government grants			-
-	(27,989)	**(27,989)**	Capital grants and contributions		(6,922)	(6,922)
77,043	**(88,074)**	**(11,031)**	**(Surplus) or Deficit on Provision of Services**	**93,115**	**(86,782)**	**6,333**
			(Surplus) or deficit on revaluation of non current assets			
		(48)	Re-measurements of the defined benefit liability			(283)
		-	Other (gains) and losses			-
		(48)	**Other Comprehensive Income and Expenditure**			**(283)**
		(11,079)	**Total Comprehensive Income and Expenditure**			**6,050**
			(Surplus) or Deficit on Provision of Services - minority interest share			*201*

TVCA Comprehensive Income and Expenditure Statement
for the year ended 31 March 2019

2017/18				2018/19		
£000s	£000s	£000s		£000s	£000s	£000s
Expenditure	Income	Net		Expenditure	Income	Net
3,130	(1,541)	**1,589**	Business Growth	9,425	(4,461)	**4,964**
3,937	(67)	**3,870**	Research Development Innovation & Energy	14,709	(14,166)	**543**
6,382	(1,216)	**5,166**	Education Employment & Skills	5,347	(2,075)	**3,272**
685	(474)	**211**	Culture	4,626	(1,375)	**3,251**
23,338	(19,361)	**3,977**	Transport	21,562	(18,116)	**3,446**
11,631	(3,593)	**8,038**	Enabling Infrastructure	3,858	(10)	**3,848**
4,130	(3,550)	**580**	Project Development	3,893	(1,341)	**2,552**
4,283	(3,199)	**1,084**	Core Running Costs	4,995	(4,396)	**599**
16,628	(16,628)	**-**	Concessionary Fares	16,756	(16,756)	**-**
5,152	50	**5,202**	SSI Related Schemes Not in the Investment Plan	1,567	-	**1,567**
-	-	**-**	Place	1,250	-	**1,250**
1,411	(9,898)	**(8,487)**	Not Directly Attributable to Themes	-	(12,460)	**(12,460)**
80,707	**(59,477)**	**21,230**	**Cost Of Services**	**87,988**	**(75,156)**	**12,832**
			Financing and Investment Income and Expenditure:			
176	(136)	**40**	Net interest on the net defined benefit liability/asset	204	(158)	46
	(462)	**(462)**	Interest receivable and similar income	-	(1,015)	(1,015)
			Taxation and Non-Specific Grant Income:			
-	-	**-**	Non-ringfenced government grants	-	-	-
-	(27,989)	**(27,989)**	Capital grants and contributions	-	(4,976)	(4,976)
80,883	**(88,064)**	**(7,181)**	**(Surplus) or Deficit on Provision of Services**	**88,192**	**(81,305)**	**6,887**
		(49)	Re-measurements of the defined benefit liability			(282)
		-	Other (gains) and losses			-
		(49)	**Other Comprehensive Income and Expenditure**			**(282)**
		(7,230)	**Total Comprehensive Income and Expenditure**			**6,605**

Group & TVCA Balance Sheet as at 31 March 2019

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

	Note	**Group** **31 March 2019** **£000s**	**TVCA** **31 March 2019** **£000s**	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s
Non-current assets					
Property, plant and equipment	6	24,910	-	-	-
Investment property	6	5,618	-		
Intangible assets	6	25,510	-	-	-
Long Term Debtors	12	8,582	60,766	6,448	6,448
Total non-current assets		64,620	60,766	6,448	6,448
Current assets					
Short term investments		27,500	27,500	65,000	65,000
Inventories		196	-	-	-
Debtors	13	15,443	13,630	5,060	5,282
Cash and Cash Equivalents	14	10,377	7,000	30,074	26,000
Total current assets		53,516	48,130	100,134	96,282
Current liabilities					
Cash and Cash Equivalents	14	(5,343)	(5,343)	(2,648)	(2,648)
Short Term Creditors	15	(15,831)	(15,172)	(5,378)	(5,375)
Total current liabilities		**(21,174)**	**(20,515)**	(8,026)	(8,023)
Long term liabilities					
Long Term Creditors	16	(2,831)	-	-	-
Other Long Term Liabilities	16 & 23	(2,512)	(2,330)	(2,051)	(2,051)
Provisions	16	(102)			
Total long term liabilities		**(5,445)**	**(2,330)**	(2,051)	(2,051)
Net Assets:		**91,517**	**86,051**	96,505	92,656
Reserves					
Usable reserves:					
General Fund Balance		1,011	962	1,033	961
P&L Reserve	8	(262)	-	-	-
Earmarked General Fund Reserves	8	56,480	54,656	50,313	47,458
Capital Grants Unapplied		35,425	32,916	47,432	46,507
		92,654	88,534	98,778	94,926
Unusable Reserves:					
Pensions Reserve	16 & 23	(2,512)	(2,330)	(2,051)	(2,051)
Minority Interest		1,541	-	-	-
Accumulated Absences Account		(166)	(153)	(222)	(219)
		(1,137)	(2,483)	(2,273)	(2,270)
Total Reserves:		**91,517**	**86,051**	96,505	92,656

Mayor Ben Houchen ………………………………………………

Chair Tees Valley Combined Authority Cabinet
Date

Group & TVCA Cash Flow Statement For The Year Ended 31 March 2019

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

	Note	**Group 2018/19 £000s**	**TVCA 2018/19 £000s**	Group 2017/18 £000s	TVCA 2017/18 £000s
Net (surplus) or deficit on the provision of services		**6,333**	**6,887**	(11,031)	(7,181)
Adjustments to net surplus or deficit on the provision of services for non-cash movements:					
Depreciation, impairment and amortisation of non current assets		(227)	-	-	-
Adjustment for balances at date of Acquisition		(41)	-	-	-
Pension Fund adjustments		(613)	(561)	(385)	(386)
Increase/(Decrease) in Inventories (Stock)		196	-	-	-
Increase/(Decrease) in Revenue Debtors	13	10,383	8,348	(906)	(684)
(Increase)/Decrease in Revenue Creditors	15	(10,453)	(9,797)	(3,481)	(3,478)
(Increase)/Decrease in Long Term Creditors		(2,831)	-	-	-
Increase/(Decrease) in Long Term Debtors	12	2,134	54,318	1,435	1,435
Adjustment for intra-company transaction opening balance		753	-	-	-
		(699)	**52,308**	(3,337)	(3,113)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:					
Capital Grants credited to surplus or deficit on the provision of services		(12,007)	(44,293)	28,084	27,989
		(12,007)	**(44,293)**	28,084	27,989
Net cashflow from operating activities		**(6,373)**	**14,902**	**13,716**	**17,695**
Investing activities					
Purchase of short term and long term investments		55,000	55,000	71,000	71,000
Purchase of property, plant and equipment, investment property and intangibles		54,258	-	-	-
Proceeds from short term and long term investments		(92,500)	(92,500)	(56,056)	(56,056)
Other receipts from investing activities		12,007	44,293	(28,084)	(27,989)
Net cashflow from investing activities		**28,765**	**6,793**	(13,140)	(13,045)
Net (increase) or decrease in cash and cash equivalents		**22,392**	**21,695**	576	4,650
Cash and cash equivalents at the beginning of the reporting period		**(27,426)**	**(23,352)**	**(28,002)**	**(28,002)**
Cash and cash equivalents at the end of the reporting period	14	**(5,034)**	**(1,657)**	(27,426)	(23,352)
The cashflow for operating activities includes the following items:					
Interest received		**(687)**	**(687)**	(375)	(375)
Interest paid		**-**	**-**	**-**	**-**

Note 1: Group Structure

At the start of 2018/19 the Group consisted of Tees Valley Combined Authority and South Tees Development Corporation.

South Tees Development Corporation ("STDC"):

- Under new legal powers available to the Combined Authority STDC was established in August 2017 to redevelop the site of the former SSI steelworks which closed down in 2015 following SSI's liquidation. STDC is the first mayoral development corporation outside London.
- STDC is classed as a public body as such their financial statements are prepared under the CiPFA code.

During 2018/19 there have been a number of changes to Tees Valley Combined Authority group which has included:

Goosepool 2019 Limited

- On 31st January 2019 the Combined Authority formed a new 100% subsidiary company, Goosepool 2019 Limited. The purpose of setting up the Company was to support the purchase of Durham Tees Valley Airport.
- On 14th March 2019 the TVCA shareholding in the company reduced to 75% with 25% shareholding taken by Stobart Aviation. Following the change in the structure TVCA has maintained control over the organisation and will recognise the organisation as a subsidiary within the group financial statements.
- The financial statements of Goosepool 2019 Limited are prepared under FRS102 and are to the same financial year end date as the Combined Authority. Where relevant and material, accounting policies have been aligned to the Code of Practice on Local Authority Accounting.

Durham and Tees Valley Airport Limited ("DTVAL"):

- On the 15th February 2019 Goosepool 2019 Limited purchased 89% of the share capital of Durham Tees Valley Airport Limited for a consideration of £40m . This is the first acquisition made by the group.
- The vision for this purchase was to secure for Tees Valley an internationally connected airport and aviation orientated business park which will continue to support indigenous economic growth and act as a catalyst for enhanced inward investment and tourism activity.
- A 10 year business plan was developed which discussed the options relating to both the core functions of the airport - passenger numbers and logistical support - and the wider co-locational activities, relating to maximising the economic impact of the airports associated property offering.
- The 89% shareholding held by TVCA is a controlling share and thus will be recognised as a subsidiary.
- The financial statements of DTVAL are prepared under FRS102 and are to the same financial year end date as the Combined Authority. Where relevant and material accounting policies have been aligned to the Code of Practice on Local Authority Accounting.

South Tees Developments Limited ("STDL"):

- On 3rd January 2019 STDC formed a new 100% subsidiary company South Tees Developments Limited.
- South Tees Developments Ltd was set up in 2019 to hold and develop land areas on behalf of STDC. The masterplan for the redevelopment of the site under STDC has been agreed with the long term view to redevelop the site to provide a high value, low carbon, diverse and inclusive economy. Creating significant employment prospects for the area.
- As the organisation is 100% owned by the STDC it will be treated as a subsidiary.
- The financial statements of STDL are prepared under FRS102 and are to the same financial year end as the Combined Authority. Where relevant and material accounting policies have been aligned to the Code of Practice on Local Authority Accounting.

Business Combinations Acquisitions

As noted there have been a number of changes to the group in the year which in the main were through newly formed organisations. However, in the year an acquisition was made of Durham Tees Valley Airport. Goosepool 2019 Limited acquired 89% of the share capital of Durham and Tees Valley Airport Limited for a total consideration of £40m.

Management have estimated that the useful life of associated Goodwill is 10 years, this is consistent with the business plan that management have implemented to bring the airport back into profit.

	£'000
Share Valuation	51,044
P&L Reserve	(52,647)
Capital Contribution	18,108
NET ASSETS (Fair Value)	**16,505**
Goodwill & Minority Interest	
Net Assets (Fair Value)	16,505
Less 11% Minority Interest	(1,815)
Less Acquisition	(40,200)
Goodwill	**25,510**

Note 2: Group Expenditure & Funding Analysis

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

2017/18				2018/19		
Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**Net Expenditure Chargeable to the General Fund**	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000s	**£000s**	**£000s**		**£000s**	**£000s**	**£000s**
1,540	49	**1,589**	Business Growth	4,514	450	**4,964**
7	3,863	**3,870**	Research Development Innovation & Energy	454	89	**543**
1,173	3,993	**5,166**	Education Employment & Skills	1,953	1,319	**3,272**
467	(256)	**211**	Culture	1,323	1,928	**3,251**
1,182	2,795	**3,977**	Transport	1,109	2,749	**3,858**
872	6,241	**7,113**	Enabling Infrastructure	872	2,988	**3,860**
3,350	(3,520)	**(170)**	Project Development	5,637	(3,085)	**2,552**
1,000	(2,091)	**(1,091)**	Core Running Costs	4,018	(2,705)	**1,313**
-	-	**-**	Concessionary Fares	-	-	**-**
-	5,202	**5,202**	SSI Related Schemes Not in the Investment Plan	-	1,567	**1,567**
-	-	**-**	Place	-	1,250	**1,250**
12,130	(20,617)	**(8,487)**	Not Directly Attributable to Themes	12,468	(24,928)	**(12,460)**
21,721	**(4,341)**	**17,380**	**Net Cost Of Services**	**32,348**	**(18,378)**	**13,970**
(22,086)	(6,325)	(28,411)	Other Income and Expenditure	(32,326)	24,689	(7,637)
(365)	**(10,666)**	**(11,031)**	Surplus or Deficit	**22**	**6,311**	**6,333**
668			**Opening General Fund Balance**	**1,033**		
365			Less/Plus Surplus or (Deficit)	**(22)**		
1,033			**Closing General Fund Balance at 31 March 2019**	**1,011**		

Note 2: Group Expenditure & Funding Analysis

Group Notes to the Expenditure and Funding Analysis:

Adjustments between Funding and Accounting Basis 2018/19				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Business Growth	1,692	9	(1,251)	**450**
Research Development Innovation & Energy	341	6	(258)	**89**
Education Employment & Skills	3,217	33	(1,931)	**1,319**
Culture	3,156	21	(1,249)	**1,928**
Transport	3,381	-	(632)	**2,749**
Enabling Infrastructure	3,843	-	(855)	**2,988**
Project Development	1,687	-	(4,772)	**(3,085)**
Core Running Costs	-	496	(3,201)	**(2,705)**
Concessionary Fares	-	-	-	**-**
SSI Related Schemes Not in the Investment Plan	-	3	1,564	**1,567**
Place	1,250	-	-	**1,250**
Not Directly Attributable to Themes	-	-	(24,928)	**(24,928)**
Net Cost Of Services	18,567	568	(37,513)	**(18,378)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(6,922)	46	31,565	**24,689**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	11,645	614	(5,948)	**6,311**

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Business Growth	1,394	9	(1,354)	49
Research Development Innovation & Energy	3,327	-	536	3,863
Education Employment & Skills	4,886	14	(907)	3,993
Culture	201	7	(464)	(256)
Transport	3,908	-	(1,113)	2,795
Enabling Infrastructure	6,875	3	(637)	6,241
Project Development	536	-	(4,056)	(3,520)
Core Running Costs	-	301	(2,392)	(2,091)
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	13	5,189	5,202
Not Directly Attributable to Themes	-	-	(20,617)	(20,617)
Net Cost Of Services	**21,127**	**347**	**(25,815)**	**(4,341)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(27,989)	40	21,624	(6,325)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	**(6,862)**	**387**	**(4,191)**	**(10,666)**

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

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

Group Notes to the Expenditure and Funding Analysis:

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

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

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

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

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

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

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

Expenditure and Income Analysed By Nature

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

	Group	Group
	2018/19	2017/18
	£000s	£000s
Expenditure		
Employee benefits expenses	6,368	3,694
Other services expenses	86,541	73,173
Interest payments	206	176
Total Expenditure	**93,115**	77,043
Income		
Fees, charges and other service income	(1,129)	(108)
Interest and investment income	(920)	(598)
Government grants and contributions	(84,733)	(87,368)
Total Income	**(86,782)**	(88,074)
(Surplus) or Deficit on the Provision of Services	**6,333**	(11,031)

Segmental Income

Income received on a segmental basis is analysed below:

	Group	Group
	2018/19	2018/19
	£000s	£000s
Services	**Income from Services**	Income from Services
Business Growth	-	0
Research Development Innovation & Energy	-	0
Education Employment & Skills	(3)	(7)
Culture	(16)	0
Transport	(564)	0
Enabling Infrastructure	-	0
Project Development	-	0
Core Running Costs	(546)	(94)
SSI Related Schemes Not in the Investment Plan	-	(7)
Place	-	0
Not Directly Attributable to Themes	-	0
Total income analysed on a segmental basis	**(1,129)**	(108)

Note 2: Expenditure & Funding Analysis TVCA

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

2017/18				2018/19		
Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**Net Expenditure Chargeable to the General Fund**	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000s	**£000s**	**£000s**		**£000s**	**£000s**	**£000s**
1,540	49	**1,589**	Business Growth	4,514	450	**4,964**
7	3,863	**3,870**	Research Development Innovation & Energy	454	89	**543**
1,173	3,993	**5,166**	Education Employment & Skills	1,953	1,319	**3,272**
467	(256)	**211**	Culture	1,323	1,928	**3,251**
1,182	2,795	**3,977**	Transport	1,109	2,337	**3,446**
872	7,166	**8,038**	Enabling Infrastructure	10	3,838	**3,848**
3,350	(2,770)	**580**	Project Development	5,637	(3,085)	**2,552**
1,072	12	**1,084**	Core Running Costs	2,607	(2,008)	**599**
-	-	**-**	Concessionary Fares	-	-	**-**
-	5,202	**5,202**	SSI Related Schemes Not in the Investment Plan	-	1,567	**1,567**
-	-	**-**	Place	-	1,250	**1,250**
12,130	(20,617)	**(8,487)**	Not Directly Attributable to Themes	12,468	(24,928)	**(12,460)**
21,793	**(563)**	**21,230**	**Net Cost Of Services**	**30,075**	**(17,243)**	**12,832**
(22,086)	(6,325)	(28,411)	Other Income and Expenditure	(30,076)	24,129	(5,947)
(293)	**(6,888)**	**(7,181)**	Surplus or Deficit	**(1)**	**6,886**	**6,885**
668			**Opening General Fund Balance**	**961**		
293			Less/Plus Surplus or (Deficit)	**1**		
961			**Closing General Fund Balance at 31 March 2019**	**962**		

Note 2: Expenditure & Funding Analysis TVCA

Notes to the Expenditure and Funding Analysis: TVCA

Adjustments between Funding and Accounting Basis 2018/19				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	1,692	9	(1,251)	**450**
Research Development Innovation & Energy	341	6	(258)	**89**
Education Employment & Skills	3,217	33	(1,931)	**1,319**
Culture	3,156	21	(1,249)	**1,928**
Transport	3,381	-	(1,044)	**2,337**
Enabling Infrastructure	3,843	-	(5)	**3,838**
Project Development	1,687	-	(4,772)	**(3,085)**
Core Running Costs	-	442	(2,450)	**(2,008)**
Concessionary Fares	-	-	-	**-**
SSI Related Schemes Not in the Investment Plan	-	3	1,564	**1,567**
Place	1,250	-	-	**1,250**
Not Directly Attributable to Themes	-	-	(24,928)	**(24,928)**
Net Cost Of Services	18,567	514	(36,324)	**(17,243)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(4,976)	46	29,059	**24,129**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	13,591	560	(7,265)	**6,886**

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	1,394	9	(1,355)	49
Research Development Innovation & Energy	3,327	-	536	3,863
Education Employment & Skills	4,886	14	(907)	3,993
Culture	201	7	(464)	(256)
Transport	3,908	-	(1,114)	2,795
Enabling Infrastructure	7,800	3	(637)	7,166
Project Development	536	-	(3,305)	(2,770)
Core Running Costs	-	300	(288)	12
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	13	5,189	5,202
Not Directly Attributable to Themes	-	-	(20,616)	(20,616)
Net Cost Of Services `	**22,052**	**346**	**(22,961)**	**(563)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(27,989)	40	21,624	(6,325)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	**(5,937)**	**386**	**(1,337)**	**(6,888)**

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

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

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

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

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

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

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

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

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

Expenditure and Income Analysed By Nature

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

	2018/19	2017/18
	£000s	£000s
Expenditure		
Employee benefits expenses	5,080	3,579
Other services expenses	82,906	77,128
Interest payments	204	176
Total Expenditure	**88,190**	80,883
Income		
Fees, charges and other service income	(50)	(98)
Interest and investment income	(1,173)	(598)
Government grants and contributions	(80,080)	(87,368)
Total Income	**(81,303)**	(88,064)
(Surplus) or Deficit on the Provision of Services	**6,887**	(7,181)

Segmental Income

Income received on a segmental basis is analysed below:

	2018/19	2017/18
	£000s	£000s
Services	**Income from Services**	Income from Services
Business Growth	0	0
Research Development Innovation & Energy	(3)	0
Education Employment & Skills	(16)	(7)
Culture	(3)	0
Transport	0	0
Enabling Infrastructure	0	0
Project Development	0	0
Core Running Costs	(28)	(84)
SSI Related Schemes Not in the Investment Plan	0	(7)
Place	0	0
Not Directly Attributable to Themes	0	0
Total income analysed on a segmental basis	**(50)**	(98)

Note 3: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted (TVCA and Group)

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

- Amendments to IAS 40 Investment Property: Transfers of Investment Property - Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property.

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

- IFRIC 22 Foreign Currency Transactions and Advanced Consideration - Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Authority does not have any material transactions within the scope of the amendment.

- IFRIC 23 Uncertainty over Income Tax Treatments -It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company’s tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes

Note 4: Critical Judgements in Applying Accounting Policies (TVCA and Group)

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

- The Code of Practice requires local authorities to produce Group Accounts to reflect significant activities by other organisations in which the Council has an interest. The Combined Authority has considered its interests in this respect, both quantitatively and qualitatively, and has concluded that South Tees Development Corporation (STDC) and Goosepool 2019, are materially significant to the overall financial position of the Combined Authority and are therefore consolidated into the Group Financial Statements.
- The Group has applied its judgement in the classification of the assets of the Goosepool Group upon consolidation and conversion to the code. All assets that are intrinsic to the operations of the airport are classified as an infrastrcuture asset under the code and valued at historic cost. Any Goosepool asset which obtains rentals and is not used in any way to facilitate the delivery of services or is held for sale then it meets the definition of investment property and is held at fair value. Within the 817 acre site that the Airport sits on there is a large area of land which is not currently providing service potential for the Group and is therfore deemed a surplus asset and is valued at fair value under IFRS13. The hotel which resides on the airport land is currently mothballed and as such is held as a surplus asset and valued at fair value.

- The Group has applied its judgement in the classification of investment properties. Investment properties are held to earn rentals or for capital appreciation or both. Some properties earn rentals but are held for regeneration purposes, wider socio-economic reasons or are used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation. Where this is the case, these properties have been classed as Property, Plant and Equipment.

Note 5: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty (TVCA and Group)

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

The items in TVCA's and the Group Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Pension liabilities: estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide TVCA and the Group with expert advice about the assumptions to be applied. Sensitivities are included in Note 23.

Note 6: Tangible Fixed Assets (Group) Plant, Property and Equipment

	Land & Buildings	Plant & Equipment	Surplus Assets	TOTAL
	£000s	**£000s**	**£000s**	**£000s**
Cost				
As at 1 April 2018	-	-	-	**-**
Additions	12,273	1,980	10,930	**25,183**
Revaluation	(273)			**(273)**
Disposals	-	-	-	**-**
As at 31 March 2019	12,000	1,980	10,930	**24,910**
Depreciation				
As at 1 April 2018	-	-	-	**-**
Additions	-	-	-	**-**
Depreciation Charge	-	-	-	**-**
Impairments	-	-	-	**-**
Derecognition of Disposals	-	-	-	**-**
As at 31 March 2019	-	-	-	**-**
Net Book Value				
As at 1 April 2018	-	-	-	-
As at 31 March 2019	**12,000**	**1,980**	**10,930**	**24,910**

The Authority does not hold any fixed assets as a single entity.
The assets of Goosepool Group are held based on continuing operations as an operational airport

Note 6: Tangible Fixed Assets (Group) Investment Properties

	£000s
Cost	
As at 1 April 2018	-
Additions	5,618
Revaluation	-
Disposals	-
As at 31 March 2019	5,618
Depreciation	
As at 1 April 2018	-
Additions	-
Depreciation Charge	-
Impairments	-
Derecognition of Disposals	-
As at 31 March 2019	-
Net Book Value	
As at 1 April 2018	-
As at 31 March 2019	**5,618**

Investment properties are those that do not in any way to facilitate the delivery of services or production of goods, are held for sale or form part of a wider regeneration programme.

Note 6: Intangible Fixed Assets (Group)

The inangible assets in the group consists wholly of Goodwill within Goosepool group associated with the purchase of Durham Tees Valley Airport

Note 7: Adjustments between Accounting Basis and Funding Basis under Regulations

Group

2018/19	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Grants Unapplied Account	12,007		(12,007)	-
Adjustments involving the Pensions Reserve	613			(613)
Adjustments involving the Accumulated Absences Adjustment Account	(56)			56
Total Adjustments	**12,564**	**-**	**(12,007)**	**(557)**

2017/18	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Grants Unapplied Account	(6,862)		6,862	-
Adjustments involving the Pensions Reserve	385			(385)
Adjustments involving the Accumulated Absences Adjustment Account	46			(46)
Total Adjustments	**(6,431)**	**-**	**6,862**	**(431)**

TVCA

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

2017/18 Comparative figures	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Grants Unapplied Account	(5,937)	-	5,937	-
Adjustments involving the Pensions Reserve	386	-	-	(386)
Adjustments involving the Accumulated Absences Adjustment Account	43	-	-	(43)
Total Adjustments	**(5,508)**	**-**	**5,937**	**(429)**

Note 8: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

Group

Earmarked Reserves	Balance at 31 March 2018 £000s	Transfers Out 2018/19 £000s	Transfers In 2018/19 £000s	Balance at 31 March 2019 £000s
Revenue Reserves				
Development Pot	(1,939)	909	-	(1,030)
Investment Fund	(31,386)	1,308	(13,155)	(43,233)
SSI	(16,988)	4,771	-	(12,217)
P&L Reserve	-	262	-	262
Total Revenue Reserves	**(50,313)**	**7,250**	**(13,155)**	**(56,218)**

TVCA

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

Note 9: Capital Adjustment Account
Group and TVCA

	GROUP 2018/19 £000s	2017/18 £000s
Balance at 1 April 2018		
Revenue expenditure funded from capital under statute	51,940	43,151
	51,940	43,151
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(30,716)	(18,279)
Application of grants to capital financing from the Capital Grants Unapplied Account	(18,929)	(22,052)
Capital expenditure charged against the General Fund balance	(2,295)	(2,820)
	(51,940)	(43,151)
Balance at 31 March 2019	**-**	**-**

	TVCA	
	2018/19	**2017/18**
Balance at 1 April 2018	**£000s**	**£000s**
Revenue expenditure funded from capital under statute	51,564	43,151
	51,564	43,151
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(30,702)	(18,279)
Application of grants to capital financing from the Capital Grants Unapplied Account	(18,567)	(22,052)
Capital expenditure charged against the General Fund balance	(2,295)	(2,820)
	(51,564)	(43,151)
Balance at 31 March 2019	**-**	**-**

Note 10: TVCA Members' Allowances

Details of the amounts paid to each elected member of the Authority are published annually. Elected members from the constituent local authorities sit on various TVCA boards and receive no allowance for carrying out this role from the Authority. Councillor Harker was re-imbursed £26 during the year for travel costs incurred whilst representing TVCA.

During the year payments were made to the Mayor totalling £38,406 which consisted of £36,537 Mayoral Allowance and £1,869 travel and subsistence.
The Chair of the Local Enterprise partnership, Paul Booth, sits on TVCA Cabinet and during the year he was re-imbursed £3,406 in relation to accommodation and travel costs incurred whilst representing TVCA.

Note 11: Employee remuneration (TVCA and Group)

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

Remuneration of Senior Employees 2018/19						
Post holder information	**Salary (Including fees & Allowances) £**	**Expense Allowances £**	**Benefits in kind £**	**Total Remuneration excluding pension contributions 2018/19 £**	**Pension contributions £**	**Total Remuneration including pension contributions 2018/19 £**
Chief Executive	46,359	246	-	**46,605**	7,371	**53,976**
Managing Director	42,994	1,245		**44,239**	6,836	**51,076**
Interim Managing Director	71,012	771	-	**71,783**	11,291	**83,073**
Strategy Director	91,044	672	-	**91,716**	14,476	**106,192**
Investment Director	90,520	483	-	**91,003**	14,476	**105,479**
Business Director	91,044	896	-	**91,940**	14,476	**106,416**
Director of Finance	14,877	-	-	**14,877**	2,365	**17,242**
Head of Skills Education & Employment	76,997	99	-	**77,096**	12,243	**89,339**
Head of Culture & Tourism	76,997	-	-	**76,997**	12,243	**89,240**
Head of Transport	73,221	-	-	**73,221**	7,141	**80,362**
Head of Comms & Marketing	76,997	802	-	**77,799**	12,243	**90,042**
Head of Finance, Resources & Housing	76,997	-	-	**76,997**	12,243	**89,240**
TVCA TOTAL	**829,059**	**5,214**	**-**	**834,273**	**127,404**	**961,677**
Engineering and Project Director	124,583	-	-	**124,583**	21,179	**145,762**
Assistant Director of Regeneration	58,395	-	-	**58,395**	-	**58,395**
Senior non executive Director	20,556	-	-	**20,556**	-	**20,556**
Interim Commercial Director	41,129	-	-	**41,129**	-	**41,129**
GROUP ENTITIES TOTAL	**244,663**	**-**	**-**	**244,663**	**21,179**	**265,842**
GROUP TOTAL	**1,073,722**	**5,214**	**-**	**1,078,936**	**148,583**	**1,227,519**

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

STDC Group - The Chief Executive was employed by the South Tees Site Company, a Government ran organisation responsible for the safety, security and upkeep of the former SSI site. The postholder left the role in September 2018 and no recharge took place for his salary.
The Senior Non Executive Director deputised for the CEO from that date.
The Director of Finance is employed by Tees Valley Combined Authority.
Neither of the above received direct remuneration from STDC, however a proportion of the Director of Finance salary is recharged to STDC by TVCA and in 2018/19 this amounted to £11,461

Goosepool Group - As a result of Goosepool Group only forming part fo TVCA Group for six weeks of the year there are no material amounts to report.

Remuneration of Senior Employees 2017/18						
Post holder information	**Salary (Including fees & Allowances) £**	**Expense Allowances £**	**Benefits in kind £**	**Total Remuneration excluding pension contributions 2017/18 £**	**Pension contributions £**	**Total Remuneration including pension contributions 2017/18 £**
Managing Director	136,350	734	-	**137,084**	32,817	**169,901**
Strategy Director	89,259	549	-	**89,808**	14,192	**104,000**
Investment Director	89,259	599	-	**89,858**	14,192	**104,050**
Business Director	89,259	1,473	-	**90,732**	14,192	**104,924**
Head of Skills Education & Employment	56,387	-	-	**56,387**	8,965	**65,352**
Head of Culture & Tourism	75,487	-	-	**75,487**	12,002	**87,489**
Director of Finance	75,057	-	-	**75,057**	12,002	**87,059**
Head of Transport	75,487	-	-	**75,487**	12,002	**87,489**
Head of Comms & Marketing	13,190	-		**13,190**	2,097	**15,287**
Head of Homes & Communities	75,487	-	-	**75,487**	12,002	**87,489**
TVCA TOTAL	775,221	3,354	-	**778,576**	134,466	**913,042**

The number of employees whose taxable remuneration, including benefits, redundancy and other severance payments, exceeded £50,000 is shown below, in bands of £5,000:

	Group		TVCA	
Remuneration Summary Salary Range	**Number of Employees 2018/19**	**Number of Employees 2017/18**	**Number of Employees 2018/19**	**Number of Employees 2017/18**
£50,001 - £55,000	2	1	1	1
£55,001 - £60,000	2	-	1	-
£60,001 - £65,000	-	-	-	-
£65,001 - £70,000	-	-	-	-
£70,001 - £75,000	-	-	-	-
£75,001 - £80,000	-	-	-	-
£80,001 - £85,000	-	-	-	-
£85,001 - £90,000	-	-	-	-
£90,001 - £95,000	-	-	-	-
£95,001 - £100,000	-	-	-	-
£100,001 - £105,000	-	-	-	-
£125,001 - £130,000	-	-	-	-
£130,001 - £135,000	-	-	-	-
£135,001 - £140,000	-	-	-	-

Remuneration of the Chief Executive and her senior staff has been excluded from the salary range analysis shown in the table above.

Note 12: Long Term Debtors

	Group 31 March 2019 £000s	TVCA 31 March 2019 £000s	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s
Central Government	-	-	-	-
Local Government	6,570	17,785	6,414	6,414
Other entities and individuals	2,012	42,981	34	34
	8,582	**60,766**	**6,448**	**6,448**

Note 13: Debtors

	Group 31 March 2019 £000s	TVCA 31 March 2019 £000s	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s
Central Government	6,016	6,016	1,576	1,569
Local Government	6,589	6,589	3,254	3,483
Other entities and individuals	2,838	1,025	230	230
	15,443	**13,630**	**5,060**	**5,282**

Note 14: Cash and Cash Equivalents

	Group 31 March 2019 £000s	TVCA 31 March 2019 £000s	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s
Bank and Imprests	(1,966)	(5,343)	(2,648)	(2,648)
Cash Equivalents	7,000	7,000	30,074	26,000
	5,034	**1,657**	**27,426**	**23,352**

Note 15: Short Term Creditors

	Group 31 March 2019 £000s	TVCA 31 March 2019 £000s	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s
Central Government	(6,137)	(6,062)	(90)	(90)
Local Government	(3,903)	(7,057)	(2,650)	(2,650)
Other entities and individuals	(5,791)	(2,053)	(2,638)	(2,635)
	(15,831)	**(15,172)**	**(5,378)**	**(5,375)**

Note 16: Other Long Term Liabilities

	Group 31 March 2019 £000s	TVCA 31 March 2019 £000s	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s
Net pensions liability	(2,512)	(2,330)	(2,051)	(2,051)
Long Term Creditors	(2,831)	-	-	-
Deferred Tax Provision	(102)	-	-	-
	(5,445)	**(2,330)**	**(2,051)**	**(2,051)**

Note 17: Related Party Transactions (Group)

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

TVCA Constituent Authorities

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

2018/19	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,451	6,157
Middlesbrough Borough Council	4,636	7,285
Redcar & Cleveland Borough Council	5,156	10,166
Hartlepool Borough Council	2,427	7,127
Darlington Borough Council	3,235	3,169
Total	**19,905**	**33,904**

2017/18	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,266	6,464
Middlesbrough Borough Council	4,966	13,112
Redcar & Cleveland Borough Council	5,049	4,330
Hartlepool Borough Council	2,349	7,151
Darlington Borough Council	3,177	9,084
Total	**19,807**	**40,141**

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

	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
Stockton On Tees Borough Council	-	369	752
Middlesbrough Borough Council	3,240	311	2,938
Redcar & Cleveland Borough Council	-	2,183	200
Hartlepool Borough Council	100	1,810	107
Darlington Borough Council	3,230	1,128	339
Total	**6,570**	**5,801**	**4,336**

As at 31 March 2018 the below balances were held in the groups balance sheet in respect of the constituent authorities.

	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
Stockton On Tees Borough Council	-	120	750
Middlesbrough Borough Council	3,552	675	241
Redcar & Cleveland Borough Council	-	2,318	246
Hartlepool Borough Council	1,763	139	158
Darlington Borough Council	1,100	1	688
Total	**6,415**	**3,253**	**2,083**

Note 17: Related Party Transactions (TVCA)

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

Central Government

Central government has effective control over the general operations of TVCA – it is responsible for providing the statutory framework within which they operate, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that they have with other parties. Grants received from government departments are set out in the subjective analysis in Note 18. During the year the Group incurred expenditure totalling £15k in relation to Central Government Departments excluding HMRC.

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 8. During 2018/19, there were no related party transactions between members and TVCA.

Entities Controlled or Significantly Influenced by the Authority

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

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

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

2017/18	Income Received £000s	Expenditure £000s
South Tees Development Corporation	-	2,399
Goosepool 2019	-	-
Total	**-**	**2,399**

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

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

2017/18	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
South Tees Development Corporation	-	229	-
Goosepool 2019	-	-	-
Total	**-**	**229**	**-**

TVCA Constituent Authorities

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

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

2017/18	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,266	6,464
Middlesbrough Borough Council	4,966	13,112
Redcar & Cleveland Borough Council	5,049	4,330
Hartlepool Borough Council	2,349	7,151
Darlington Borough Council	3,177	9,084
Total	**19,807**	**40,141**

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

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

As at 31 March 2018 the below balances were held in the groups balance sheet in respect of the constituent authorities.

	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
Stockton On Tees Borough Council	-	120	750
Middlesbrough Borough Council	3,552	675	241
Redcar & Cleveland Borough Council	-	2,318	246
Hartlepool Borough Council	1,763	139	158
Darlington Borough Council	1,100	1	688
Total	**6,415**	**3,253**	**2,083**

Note 18: External Audit Costs (TVCA and Group)

The Group has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Groups external auditors:

	Group 2018/19 £000s	**TVCA 2018/19 £000s**	Group 2017/18 £000s	TVCA 2017/18 £000s
Fees payable to Mazars LLP with regard to external audit services	50	29	48	30
Fees payable to MHA Tait Walker with regard to external audit services	13	-	-	-
	63	**29**	48	30
Rebate from Public Sector Audit Appointments Ltd				(4)

Note 19: Leases (TVCA and Group)

Operating leases: TVCA as lessee

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

Future minimum lease payments due	**2018/19 £000s**	2017/18 £000s
Not later than one year	152	152
Later than one year & not later than five years	608	608
Later than five years	418	570
	1,178	1,330

Within STDC group leases are held to cover pipework across the site which do not have an end date, the annual expenditure associated with these leases is £202k.

At the end of 2018/19 Goosepool did not hold any leases.

Operating leases: Group lessors

Within the Group Goosepool act as a lessors and have granted a number of long-term leases to commercial operations for land and property, accounting for them as operating leases.

Future minimum lease payments due	**2018/19 £000s**	2017/18 £000s
Not later than one year	445	-
Later than one year & not later than five years	516	-
Later than five years	857	-
	1,818	-

Within STDC group leases are held to cover pipework across the site which do not have an end date, the annual income associated with these leases is £255k.

At the end of 2018/19 TVCA did not grant any leases.

Note 20: Capital Expenditure and Financing (TVCA and Group)

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

	GROUP	
	31 March 2019	31 March 2018
	£000s	£000s
Opening Capital Financing Requirement	**-**	**-**
Capital investment		
Revenue expenditure funded from capital under statute	51,564	43,151
Sources of Finance		
Government grants and other contributions	(49,269)	(40,331)
Sums set aside from revenue:		
Direct revenue contributions	(2,295)	(2,820)
Closing Capital Financing Requirement	**-**	**-**

	TVCA	
	31 March 2019	31 March 2018
	£000s	£000s
Opening Capital Financing Requirement	**-**	**-**
Capital investment		
Revenue expenditure funded from capital under statute	51,940	43,151
Sources of Finance		
Government grants and other contributions	(49,645)	(40,331)
Sums set aside from revenue:		
Direct revenue contributions	(2,295)	(2,820)
Closing Capital Financing Requirement	**-**	**-**

Note 21: Grant Income (TVCA and Group)

The Authority and Group credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19.

	Group	**TVCA**	Group	TVCA
	2018/19	**2018/19**	2017/18	2017/18
	£000s	**£000s**	£000s	£000s
Credited to Taxation and Non Specific Grant Income				
Local Growth Fund	-	-	27,989	27,989
Transforming Cities Fund	2,921	2,921	-	-
National Productivity Investment Fund	1,555	1,555	-	-
DfT Local Majors	500	500	-	-
South Tees Development Corporation Praire Site	1,946	-	-	-
Total	**6,922**	**4,976**	27,989	27,989
Credited to Services				
Adult Education Budget Transition	285	285	16	16
AGE	-	-	379	379
BEIS Local Energy Capacity Support	294	294	-	-
BIES Growth Hub	246	246	246	246
DECC - City Deal / Carbon	33	33	7	7
Devolution	15,000	15,000	15,000	15,000
DfT Access Fund	1,109	1,163	1,163	1,163
DfT Local Majors		-	100	100
DWP Routes To Work	1,157	1,157	133	133
ERDF Business Compass	4,196	4,196	-	-
ESFA Apprenticeship	5	5	-	-
ESIF	-	-	1,337	1,337
ESIF Technical Assistance	25	25	-	-
Heat Network District Unit	70	70	-	-
HLF Great Places	521	521	85	85
LEP Core	500	500	500	500
Local Growth Fund	13,708	13,708	-	-
Local industrial Strategy	20	20	-	-
Local Transport Plan	13,943	13,943	13,952	13,952
Mayoral Capacity Funding	1,000	1,000	-	-
MCA Funding	199	199	-	-
National Productivity Investment Fund	1,719	1,719	2,298	2,298
One Public Estates	-	-	359	359
Pothole Action Fund	253	253	1,929	1,929
South Tees Development Corporation OPEX	2,000	-	2,399	-
South Tees Development Corporation Praire Site	14	-	-	
Transforming Cities Fund	1,079	1,079	-	-
	57,376	**55,416**	39,903	37,504

Capital and Revenue Grants Receipts in Advance

	Group	**TVCA**	Group	TVCA
	2018/19	**2018/19**	2017/18	2017/18
	£000s	**£000s**	£000s	£000s
Adult Education Budget Transition	18	18	50	50
BEIS Local Energy Capacity Support	933	933	772	772
DWP Routes To Work	2,210	2,210	-	-
EU Exit Fund	91	91	-	-
Heat Network District Unit	191	191	-	-
Homeless Veterns Fund	91	91	-	-
Local Industrial Strategy	180	180	-	-
One Public Estates	136	136	136	136
Pothole Action Fund	534	534	-	-
Rural Community Energy Fund	1,500	1,500	-	-
Skills Analysis Panel	75	75	-	-
Total	**5,959**	**5,959**	958	958

Note 22: Financial Instruments (Group)

Categories of Financial Instruments

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

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

Financial Assets

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

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

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the group.

Financial Instruments

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

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

	Long Term		Short Term	
	31 March 2019	31 March 2018	**31 March 2019**	31 March 2018
	£000s	£000s	**£000s**	£000s
At Amortised Cost	8,582	6,448	52,441	100,014
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial assets	**8,582**	6,448	**52,441**	100,014

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

	Long Term		Short Term	
	31 March 2019	31 March 2018	**31 March 2019**	31 March 2018
	£000s	£000s	**£000s**	£000s
At Amortised Cost	(2,933)	-	(20,806)	(7,799)
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial liabilities	**(2,933)**	-	**(20,806)**	(7,799)

Nature and Extent of Risks Arising from Financial Instruments

Key risks

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

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

Note 22: Financial Instruments (Group)

Credit Risk: Treasury Investments

The group manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the group has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the group has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

	2018/19		2017/18	
	Long Term	Short Term	Long Term	Short Term
Credit Rating	**£000s**	**£000s**	**£000s**	**£000s**
AAA				23,000
AA+				
AA				
AA-				
A+	7,500	6,500		
A			30,000	
A-		500		
Unrated Local Authorities	20,000		35,000	3,000
Total financial assets	**27,500**	**7,000**	65,000	26,000

Liquidity Risk

The group manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The group is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

As at 31 March 2018, all of the group's deposits were due to mature within 364 days.

Market Risk

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

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy

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

	2018/19	2017/18
	£000s	£000s
Increase in interest receivable on variable rate investments	(384)	(258)
Impact on (Surplus) or Deficit on the Provision of Services	**(384)**	(258)

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

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

Foreign Exchange Risk: *The group has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.*

Note 22: Financial Instruments (TVCA)

Categories of Financial Instruments

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

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

Financial Assets

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

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

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Authority.

Financial Instruments

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

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

	Long Term		**Short Term**	
	31 March 2019	31 March 2018	**31 March 2019**	31 March 2018
	£000s	£000s	**£000s**	£000s
At Amortised Cost	60,766	6,448	47,263	95,940
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial assets	**60,766**	6,448	**47,263**	95,940

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

	Long Term		**Short Term**	
	31 March 2019	31 March 2018	**31 March 2019**	31 March 2018
	£000s	£000s	**£000s**	£000s
At Amortised Cost	-	-	(20,259)	(7,799)
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial liabilities	**-**	-	**(20,259)**	(7,799)

Nature and Extent of Risks Arising from Financial Instruments

Key risks

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

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

Note 22: Financial Instruments (TVCA)

Credit Risk: Treasury Investments

The Authority manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Authority has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Authority has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

	2018/19		2017/18	
	Long Term	Short Term	Long Term	Short Term
Credit Rating	**£000s**	**£000s**	**£000s**	**£000s**
AAA				23,000
AA+				
AA				
AA-				
A+	7,500	6,500		
A			30,000	
A-		500		
Unrated Local Authorities	20,000		35,000	3,000
Total financial assets	**27,500**	**7,000**	65,000	26,000

Liquidity Risk

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Authority is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

As at 31 March 2018, all of the Authority's deposits were due to mature within 364 days.

Market Risk

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

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy

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

	2018/19	2017/18
	£000s	£000s
Increase in interest receivable on variable rate investments	(384)	(258)
Impact on (Surplus) or Deficit on the Provision of Services	**(384)**	(258)

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

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

Foreign Exchange Risk: *The Authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.*

Note 23: Defined Benefit Pension Schemes (Group)

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

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

Transactions Relating to Post-employment Benefits
We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Group resources is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Note 23: Defined Benefit Pension Schemes (Group)

	Local Government Pension Scheme	
	2018/19	2017/18
	£000s	£000s
Comprehensive Income and Expenditure Statement		
Cost of Services:		
• Current service cost	1,176	715
• Past service cost	10	15
Financing and Investment Income and Expenditure		
Net interest cost	45	40
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**1,231**	770
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
• Return on plan assets (excluding the amount included in the net interest expense)	(341)	(47)
• Actuarial gains and losses arising on changes in financial assumptions	447	(1)
• Actuarial gains and losses due to liability experience	-	-
• Actuarial gains and losses due to changes in demographic assumptions	(389)	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(283)**	(48)
Movement in Reserves Statement		
• Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(1,231)	(770)
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers’ contributions payable to scheme	**669**	385

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is (£0.569m).

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme	
	2018/19	2017/18
	£000s	£000s
Present value of defined benefit obligation	(9,629)	(7,705)
Fair value of assets	7,117	5,654
Net liability recognised in the Balance Sheet	**(2,512)**	(2,051)

Note 23: Defined Benefit Pension Schemes (Group)

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

	Local Government Pension Scheme	
	2018/19	2017/18
	£000s	£000s
Opening fair value of scheme assets	5,654	5,001
Interest income	160	136
Remeasurement gains and (losses)	341	47
Contributions from the employer	617	385
Contributions from employees into the scheme	291	187
Net increase from acquisitions	-	-
Benefits paid	54	(102)
Closing balance at 31 March 2019	**7,117**	5,654

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

	Local Government Pension Scheme	
	2018/19	2017/18
	£000s	£000s
Opening balance at 1 April	(7,705)	(6,715)
Current service cost	(1,176)	(715)
Interest cost	(205)	(176)
Contributions by scheme participants	(291)	(187)
Actuarial gains and losses - financial assumptions	(447)	1
Actuarial gains and losses - demographic assumption	389	-
Actuarial gains and losses - liability experience	-	-
Benefits paid	(54)	102
Net increase from acquisitions	(130)	-
Past service cost	(10)	(15)
Closing balance at 31 March 2019	**(9,629)**	(7,705)

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets		Fair value of scheme assets	
	2018/19		2017/18	
	£000s	**%**	£000s	%
Equity investments (Quoted)	5,117	71.9%	4,518	79.9%
Property (Quoted)	655	9.2%	413	7.3%
Government Bonds	-	0.0%	-	0.0%
Corporate Bonds	-	0.0%	-	0.0%
Cash	1,196	16.8%	628	11.1%
Other Investments	149	2.1%	96	1.7%
	7,117	**100%**	5,654	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

Note 23: Defined Benefit Pension Schemes (Group)

The principal assumptions used by the actuary have been:

	2018/19	2017/18
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.2	22.9
Women	24.1	25.0
Longevity at 45 for future pensioners:		
Men	23.9	25.1
Women	25.9	27.3
Other assumptions:		
Rate of inflation (RPI)	3.2%	3.1%
Rate of inflation (CPI)	2.1%	2.0%
Rate of increase in salaries	3.1%	3.0%
Rate of increase in pensions	2.1%	2.0%
Rate of Pension accounts revaluation rate	2.1%	2.0%
Rate for discounting scheme liabilities	2.5%	2.6%
Take-up of option to convert annual pension into retirement lump sum	80.0%	80.0%

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

Impact on the Defined Benefit Obligation in the Scheme

	Increase	**Base Figure**	**Decrease**
	£000s	**£000s**	**£000s**
Longevity (increase or decrease in 1 year)	9,794	9,499	9,215
Rate of increase in salaries (increase or decrease by 0.1%)	9,596	9,499	9,215
Rate of increase in pensions payment (increase or decrease by 0.1%)	9,647	9,499	9,215
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	9,265	9,499	9,215

Impact on the Groups Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Group has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2019.

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

The Group anticipates to pay £0.827m contributions to the scheme in 2019/2020.

The weighted average duration of the defined benefit obligation for scheme members is 25.7 years.

Note 23: Defined Benefit Pension Schemes (TVCA)

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

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

Transactions Relating to Post-employment Benefits
We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Authority resources is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Note 23: Defined Benefit Pension Schemes (TVCA)

	Local Government Pension Scheme	
	2018/19	2017/18
	£000s	£000s
Comprehensive Income and Expenditure Statement		
Cost of Services:		
· Current service cost	1,042	708
· Past service cost	10	15
Financing and Investment Income and Expenditure		
Net interest cost	46	40
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**1,098**	763
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
· Return on plan assets (excluding the amount included in the net interest expense)	(338)	(48)
· Actuarial gains and losses arising on changes in financial assumptions	436	(1)
· Actuarial gains and losses due to liability experience	-	-
· Actuarial gains and losses due to changes in demographic assumptions	(380)	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(282)**	(49)
Movement in Reserves Statement		
· Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(1,098)	(763)
Actual amount charged against the General Fund Balance for pensions in the year:		
· Employers' contributions payable to scheme	**537**	377

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is (£0.515m).

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme	
	2018/19	2017/18
	£000s	£000s
Present value of defined benefit obligation	(9,314)	(7,694)
Fair value of assets	6,984	5,643
Net liability recognised in the Balance Sheet	**(2,330)**	(2,051)

Note 23: Defined Benefit Pension Schemes (TVCA)

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

	Local Government Pension Scheme	
	2018/19	2017/18
	£000s	£000s
Opening fair value of scheme assets	5,643	5,001
Interest income	158	136
Remeasurement gains and (losses)	338	48
Contributions from the employer	537	377
Contributions from employees into the scheme	252	183
Net increase from acquisitions	-	-
Benefits paid	56	(102)
Closing balance at 31 March 2019	**6,984**	5,643

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

	Local Government Pension Scheme	
	2018/19	2017/18
	£000s	£000s
Opening balance at 1 April	(7,694)	(6,715)
Current service cost	(1,042)	(708)
Interest cost	(204)	(176)
Contributions by scheme participants	(252)	(183)
Actuarial gains and losses - financial assumptions	(436)	1
Actuarial gains and losses - demographic assumption	380	-
Actuarial gains and losses - liability experience	-	-
Benefits paid	(56)	102
Net increase from acquisitions	-	-
Past service cost	(10)	(15)
Closing balance at 31 March 2019	**(9,314)**	(7,694)

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets		Fair value of scheme assets	
	2018/19		2017/18	
	£000s	**%**	£000s	%
Equity investments (Quoted)	5,021	71.9%	4,509	79.9%
Property (Quoted)	643	9.2%	412	7.3%
Government Bonds	-	0.0%	-	0.0%
Corporate Bonds	-	0.0%	-	0.0%
Cash	1,173	16.8%	626	11.1%
Other Investments	147	2.1%	96	1.7%
	6,984	**100%**	5,643	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

Note 23: Defined Benefit Pension Schemes (TVCA)

The principal assumptions used by the actuary have been:

	2018/19	2017/18
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.2	22.9
Women	24.1	25.0
Longevity at 45 for future pensioners:		
Men	23.9	25.1
Women	25.9	27.3
Other assumptions:		
Rate of inflation (RPI)	3.2%	3.1%
Rate of inflation (CPI)	2.1%	2.0%
Rate of increase in salaries	3.1%	3.0%
Rate of increase in pensions	2.1%	2.0%
Rate of Pension accounts revaluation rate	2.1%	2.0%
Rate for discounting scheme liabilities	2.5%	2.6%
Take-up of option to convert annual pension into retirement lump sum	80.0%	80.0%

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

Impact on the Defined Benefit Obligation in the Scheme

	Increase	**Base Figure**	**Decrease**
	£000s	**£000s**	**£000s**
Longevity (increase or decrease in 1 year)	9,607	9,314	9,023
Rate of increase in salaries (increase or decrease by 0.1%)	9,409	9,314	9,220
Rate of increase in pensions payment (increase or decrease by 0.1%)	9,460	9,314	9,170
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	9,078	9,314	9,556

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2019.

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

The Authority anticipates to pay £0.745m contributions to the scheme in 2019/2020.

The weighted average duration of the defined benefit obligation for scheme members is 25.7 years.

Note 24: Termination Benefits (TVCA and Group)

The Group terminated the contract of three employees in 2018/19, incurring liabilities of £50k.
The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band**	
	2018/19	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19 £000s**	2017/18 £000s
£1 to £20,000	-	-	2	-	2	-	20	-
£20,001 to £40,000	-	1	1	-	1	1	30	27
£40,001 to £60,000	-	-	-	-	-	-	-	-
£60,001 to £80,000	-	-	-	-	-	-	-	-
£80,001 to £100,000	-	-	-	-	-	-	-	-
£100,001 to £150,000	-	-	-	-	-	-	-	-
£150,001 to £200,000	-	-	-		-	-	-	-
Total	**-**	1	**3**	-	**3**	1	**50**	27

TVCA terminated the contract of two employees in 2018/19, incurring liabilities of £40k.
The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band**	
	2018/19	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19 £000s**	2017/18 £000s
£1 to £20,000	-	-	1	-	1	-	10	-
£20,001 to £40,000	-	1	1	-	1	1	30	27
£40,001 to £60,000	-	-	-	-	-	-	-	-
£60,001 to £80,000	-	-	-	-	-	-	-	-
£80,001 to £100,000	-	-	-	-	-	-	-	-
£100,001 to £150,000	-	-	-	-	-	-	-	-
£150,001 to £200,000	-	-	-		-	-	-	-
Total	**-**	1	**2**	-	**2**	1	**40**	27

Note 25: Provisions (TVCA and Group)

The Group has made a deffered tax provision in relation to fair value adjustment of assets in Goosepool Group.
(2017/18 Nil)

Note 26: Contingent Liabilities (TVCA and Group)

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. Without action by Government there would have been an inequality of benefits between male and female members who have GMP after April 2016 when Additional Pension (AP) element of the old state pension was removed. In March 2016 the government introduced an interim solution to members in public sector schemes with GMPs who were set to lose out from the removal of AP. This was done by paying full increases on GMP pensions for individuals reaching State Pension Age (SPA) from 5 April 2016 through 6 December 2018. In January 2018 the interim solution was extended for individuals reaching SPA before 5 April 2021. The additional liability from extending the interim solution was not measured over the year ending 2018 as it was deemed extremely unlikely to be material and would have been complex to measure accurately without undertaking a full valuation of the liability. Any action with regard to individuals reaching SPA after April 2021 is also unlikely to be material. Broadly, if HM Treasury's solution was to extend the interim solution indefinitely we would expect the impact to be an increase in liabilities of between 0.2% and 0.3% which would equate to approximately £28k for the Authority.

The McCloud judgement relates to age discrimination cases brought relating to previously reformed pension schemes, including most significantly, moving from final salary arrangements to career averages. The age discrimination cases arise because protection was provided for some, but not all employees, when the arrangements were introduced. A Court of Appeal judgement has ruled that there was age discrimination in a test case.
The latest figures provided estimate the increase in liabilities to be 2.1% this would equate to a liability of £196k for the Authority.

(2017/18 Nil)

Note 27: Post Balance Sheet Events (TVCA and Group)

Within the group company South Tees Developments Ltd trades with British Steel. On 22nd May 2019 British Steel was placed in compulsory liquidation. It is therefore uncertain at this stage what amounts of the trading balances will be settled.

The Directors have taken a prudent view of the recoverability of the amounts owed and have made a 100% bad debt provision against the debt due to the company. Contractually it is STDC which is liable therefore the provision has been made in STDC accounts.
(2017/18 Nil)

Note 28: Statement of Accounting Policies (Group)

General Principles
The Statement of Accounts summarises TVCA's and Group transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. They are required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Group Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).
Upon consolidation of the Group accounts all subsidiary accountign policies are aligned to those of the Authority.

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

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

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

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors
Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.
Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Group's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.
Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

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

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

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

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

Note 28: Statement of Accounting Policies (Group)

The Local Government Pension Scheme

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

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

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

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

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

Service cost comprising:

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

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

Remeasurements comprising:

- *the return on plan assets -* excluding amounts included in the net interest on the net defined benefit liability - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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

Contributions paid to the Teesside Pension Fund:

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Group to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Note 28: Statement of Accounting Policies (Group)

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

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

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

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

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

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

Government Grants and Contributions
Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Group when there is reasonable assurance that:
- the Group will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Group are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.
Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Note 28: Statement of Accounting Policies (Group)

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

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

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

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

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

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

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

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

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

Measurement
Assets are initially measured at cost, comprising:

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

Note 28: Statement of Accounting Policies (Group)

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

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

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

Assets are then carried in the Balance Sheet using the following measurement bases:

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

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

Where decreases in value are identified, they are accounted for by:

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

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

Note 28: Statement of Accounting Policies (Group)

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Contingent Liabilities & Contingent Assets

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

Reserves

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

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

Revenue Expenditure Funded from Capital under Statute

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

VAT

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

Fair Value Measurement

The Group measures some of its non-financial assets, and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

- Level 1 - quoted prices
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

Tees Valley Combined Authority

Annual Governance Statement 2018/19

1. Introduction

The election of the Tees Valley's first Mayor in May 2017 marked a major landmark in the development of the Tees Valley Combined Authority. It was the point at which powers over investment, economic development, transport and culture and tourism were formally transferred to our region. One year on, our responsibilities and ambitions continue to grow.

The Tees Valley aims to deliver 25,000 new jobs and £2.8bn of investment into our local economy by 2026.

Pivotal to this was the launch of the South Tees Development Corporation in August 2017 - the first Mayoral Development Corporation to be set up outside of London overseeing the biggest development opportunity in the UK, with the potential to inject an additional £1billion a year into the local economy.

Our growing responsibilities require a robust framework for ensuring the effective delivery of activities and the management of risk.

Our ambition is to make the Tees Valley the best place to live in the UK by driving rapid and sustainable economic growth, bringing with it better life chances and a better quality of life for our communities. But these are not the limits of our ambition or our responsibilities.

As part of the first wave of Mayoral Combined Authorities we know we have a duty to prove that the best answers for local people come from local people and that devolution is the most effective way of driving regional economic development and creating vibrant, inclusive and prosperous communities throughout the United Kingdom.

Our goal is for the Tees Valley Combined Authority to be at the forefront of this devolution revolution and recognised by our peers as a role model when it comes to delivery and innovation in local government.

Good governance is key to delivering both of these objectives.

2. The Scope of Responsibility

The Tees Valley Combined Authority is responsible for ensuring that our operations are conducted in accordance with the law and appropriate standards. We are also responsible for making sure public money is used effectively and appropriately, and is properly accounted for. We have a responsibility to ensure we have proper arrangements in place for the governance of our affairs and effective exercise of our functions, including the management of risk. We also have a duty under the 1999 Local Government Act to make continuous improvements to the way we operate.

Our Constitution sets out how we operate, how decisions are made, what our governance arrangements are and what processes are followed to ensure these are effective, transparent and accountable.

These arrangements are designed to be consistent with the principles and best practice outlined in the CIPFA guidance on good governance.

This Annual Governance Statement details how we have complied with this framework and also how we meet our responsibilities under the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015.

3. The Purpose of our Governance Framework

Meaningful and dynamic corporate governance establishes the conditions and culture for us to work effectively, economically and ethically.

Our governance framework comprises the systems and procedures we believe will achieve our strategic objectives and deliver our activities in an appropriate and cost-effective way.

These objectives, as laid out in our Strategic Economic Plan and Investment Plan are:

- Driving **business growth** to increase job numbers and business density.
- Enhancing the **productivity** in key industrial sectors through the commercialisation of knowledge.
- Establishing a local labour market with the **skills** to meet local business needs.
- **Attracting and retaining innovative local, national and international businesses and individuals**, with an emphasis on vibrant town centres.
- **Changing perceptions** of the Tees Valley through its cultural and leisure offer, and making our area an attractive place to work, visit and live.
- Facilitating local, regional, national and international **connectivity** through investment in road, rail, air and broadband infrastructure.

An investment plan was agreed in January 2019 setting out how we will allocate resources to deliver these objectives. This plan is reviewed annually.

Our governance framework enables us monitor the achievement of these strategic objectives, and the system of internal control which derives from it allows us to manage risk at a realistic level. Although it is impossible to eliminate all risk, this structure is designed to identify and prioritise risks to the achievement of our objectives, evaluate the likelihood of those risks being realised and managing their impact should they be realised.

4. The Key Elements of our Governance Framework

The following arrangements are in place to quantify the quality of our services, ensure that they are delivering our objectives and make certain that we are providing value for money.

The responsibilities of Combined Authority employees and members is clearly laid out in the Authority's Constitution. This document – subject to annual review – explicitly documents how the Authority operates, responsibilities for specific functions, schemes of delegation and how decisions are made. The Constitution – which can only be amended by the unanimous agreement of the Cabinet – also sets out expected standards of behaviour for both officers and members.

The Constitution clearly sets how both the activities of the Mayor, Cabinet and Senior Officers will be subject to a robust set of check and balances, and details how this scrutiny process will be delivered:

Statutory and non-Statutory Committees

- A statutory **Overview and Scrutiny Committee** of members appointed by each of the Constituent Authorities, designed to review the policies and operations of the Combined Authority, ensuring effective democratic scrutiny of decisions. This committee has the authority to 'call in' for review Authority decisions which have yet to be implemented and the power to prevent their implementation whilst under review. The committee has not utilised this power to date, but continues to conduct strong scrutiny of the Combined Authority's activities, including establishing a Task and Finish Group to conduct an in-depth investigation into the draft Combined Authority Budget for 18/19, as part of the consultation process.
- A statutory **Audit and Governance Committee**, assuring sound governance and financial management of the Combined Authority, with members appointed from each Constituent Authority working in tandem with appropriately-qualified and experienced independent members. This committee oversees the operation of the Authority's risk management arrangements and considers and reviews its Internal Audit arrangements.
- A statutory **Transport Committee**, reviewing transport strategy and policies and making recommendations to Cabinet. Members are drawn from the executive member with transport responsibilities from each Constituent Authorities and private sector representation.
- The **Local Enterprise Partnership (LEP)**, the principal forum for collaboration between the public and private sectors, is an integral part of the Combined Authority. A network of LEPs exists across England, but in the Tees Valley this partnership is strengthened by LEP members holding the role of Associate Members of the Combined Authority Cabinet.

The work of both these committees and the wider Combined Authority is given strategic support and oversight by a series of non-statutory and advisory groups, made up of experts from the private, public and third sector and designed to create channels of communication with stakeholders and add value to the Combined Authority's wider community consultation and engagement efforts, including but not limited to the:

- Education, Employment and Skills Partnership Board
- Culture and Tourism Partnership Board
- Innovation Task Group
- Transport Advisory Group
- Business Compass Steering Group

Monitoring Officer

We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Commercial and Legal Manager at Redcar and Cleveland Borough Council is the Authority's designated Monitoring Officer and a protocol is in place with all directors, to safeguard the legality of all Authority activities. All Cabinet reports are considered for legal issues before submission to members.

Internal Audit

The Combined Authority's Internal Audit function, undertaken by Stockton on Tees Borough Council, ensures compliance with the relevant standards and statutory requirements. The service liaises with relevant statutory officers throughout the year to develop and maximise the effectiveness of the Authority's internal control systems and delivers an annual report on the quality of our processes.

External Audit

The purpose of the External Auditors, Mazars, is to provide an opinion on the accounts and VFM conclusion.

Chief Financial Officer and Financial Arrangements

Under the requirements of Section 73 of the 1985 Local Government Act the Combined Authority has appointed a suitably-qualified Chief Finance Officer, the Finance Director.

This officer, who is part of the Combined Authority's Senior Management Team, is responsible for:

- The operation of a robust system of budgetary control, including quarterly and annual financial reports indicating financial performance against forecasts.
- Ensuring that the Authority's finance function is appropriately resourced.
- Assessing the short, medium and long-term implications of all material business decisions, and identifying and mitigating financial and organisational risks arising from them.
- Aligning the Combined Authority's business and financial planning processes.
- Promoting good financial management throughout the organisation.

There are comprehensive budgeting systems in place and a robust system of budgetary control, including quarterly and annual financial reports, which indicate financial performance against forecasts. The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Single Pot and Assurance Framework

As part of the Devolution Deal signed with HM Government, a significant proportion of central government regional investment funding has been consolidated into a Single Pot, over which the Combined Authority has significant autonomy over allocation.

An assurance framework has been developed setting out how the Tees Valley will ensure accountable and transparent decision making with regards to this fund, appraise projects and monitor and evaluate schemes to achieve value for money and ensure that funds are spent lawfully.

South Tees Development Corporation (STDC)

The STDC has in place its own Governance arrangements, constitution and statutory committees. The Tees Valley Mayor is chair of the STDC board and TVCA and STDC share the Finance Director role. Regular updates are provided to TVCA Cabinet on the progress of STDC activities, and any significant decisions are brought to the TVCA Cabinet for decision through a referral mechanism.

Goosepool

TVCA are 75% shareholders in Goosepool 2019 Ltd who in turn own 89% of the shares in Durham Tees Valley Airport. Goosepool has its own Governance arrangements in place and the Deputy Chair of the LEP is the Chair of the board of Goosepool. 3 senior officials of TVCA make up the board members along with 1 official from the minority shareholder. Regular updates on the progress against the Business Plan will be feedback to TVCA Cabinet and relevant committees.

Adult Education Budget Governance

Responsibility for post-19 education funding will be devolved to the Tees Valley Combined Authority from August 2019. An appropriate governance framework is currently being developed in order to ensure effective and appropriate decision-making, oversight and value-for-money assurance.

Corporate Risk Register

The Combined Authority operates a comprehensive and proactive Risk Management Strategy outlining its approach to Risk Management. Central to this strategy is a Corporate Risk Register which details what risks have been identified, the probability and impact of these risks being realised and which controls are in place to mitigate against these risks. This report is periodically presented to the Senior Leadership Team and scrutinised on a quarterly basis by the Audit and Governance Committee.

Declarations of Interest and Code of Conduct

All Combined Authority employees and members are subject to a formal Code of Conduct – forming part of the Authority's Constitution - and must complete, at least annually, a formal declaration of interest. In the interests of transparency the member declarations are reviewed by both the Chief Executive and Monitoring Officer and published on the Authority's website.

Governance Arrangements

A dedicated Governance team is in place to ensure that the Combined Authority is compliant with its regulatory responsibilities and to advise both members, employees and partner organisations. The team oversees number of areas including transparent decision making, Information Governance and Data Security, Health and Safety and Whistle-blowing and complaints handling.

5. Review of Effectiveness

The Combined Authority is responsible for conducting, at least annually, a review of the effectiveness of its governance arrangements. Any areas for review are overseen and co-ordinated by the Chief Executive and Finance Director and any findings reported to the Audit and Governance Committee, where appropriate.

Internal Audit

The Internal Audit service compiles an annual report on its Internal Audit arrangements, which forms an integral part of this Annual Governance Statement.

This report, carried out by an arms-length Audit and Risk Manager, incorporates an audit plan detailing timescales for assurance work relating to specific activities. High priority is given to significant corporate projects and key financial systems, as well as other specific areas requested by the Senior Management Team.

The most recently published Report concludes:

"It is my opinion that the Combined Authority continues to have an appropriate and overall effective system of internal control, upon which it can place reasonable reliance to deliver its objectives and detect fraud and other malpractice".

External Audit

The 2017/18 Audit Completion Report from the Combined Authority's external auditors concludes:

"On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Tees Valley Combined Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018."

6. Progress

At this time the Combined Authority has not identified any significant governance issues. The following actions have been proactively taken, however, since the publication of the previous Annual Governance Report in order to mitigate against future risks and continue to strengthen our arrangements.

Progress made on implementing Improvement Plan from previous Annual Governance Report:

Action	Outcome
Review and update of the Authority's Constitution	The Constitution review is ongoing and will be completed by Summer 2019.
Review of Assurance Framework	In line with Government requirements, the CA has published a reviewed assurance framework. This was agreed by the Cabinet in March 2019.
Adult Education Budget Governance arrangements	Implementation of new governance structure is ongoing.

7. Action Plan

The following actions are envisaged for the future development of our governance and risk management systems.

Action	Outcome	Responsibility	By When
Review and update the Authority's Constitution including scheme of delegation	Reviewed constitution	Chief Executive	End June 2019

Signed Date

Ben Houchen
Mayor of the Tees Valley
Combined Authority

31[st] July 2019

Julie Gilhespie

31st July 2019

Chief Executive, Tees
Valley Combined Authority

Paul Booth
Chair of the Tees Valley
Local Enterprise Partnership
and Member of the Tees
Valley Combined Authority
Cabinet

31st July 2019

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AGENDA ITEM 11

REPORT TO THE TEES VALLEY COMBINED AUTHORITY AUDIT & GOVERNANCE COMMITTEE

24TH JULY 2019

REPORT OF HEAD OF FINANCE & RESOURCES

ANTI-FRAUD AND CORRUPTION STRATEGY 2019-20

SUMMARY

The purpose of this report is to advise Members of the Anti-Fraud and Corruption arrangements for the period 2019-2020.

RECOMMENDATION

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

DETAIL

1. Tees Valley Combined Authority is committed to reducing fraud, bribery and corruption within the organisation, to ensure funds are used as they are intended. TVCA will seek the appropriate disciplinary, regulatory, civil and criminal sanctions against fraudsters and where possible, will attempt to recover losses.

2. The purpose of this policy is to improve the knowledge and understanding of all employees and members about the risks of fraud, bribery and corruption within the organisation.

3. The policy aims to promote an anti-crime culture and an environment where staff feel able to raise concerns and understand that any incidences of fraud, bribery and corruption are unacceptable.

4. The policy sets out the Combined Authority's responsibilities in terms of deterrence, prevention, detection and investigation of fraud, bribery and corruption.

5. The policy also ensures appropriate sanctions are considered following any investigation which may include disciplinary action, civil recovery and/or criminal prosecution.

FINANCIAL IMPLICATIONS

9. None

LEGAL IMPLICATIONS

10. None

RISK ASSESSMENT

11. 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 & COMMUNICATION

12. Not Applicable

EQUALITY & DIVERSITY

13. Not Applicable

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TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Tees Valley Combined Authority
Anti-Fraud & Corruption Policy
2019 - 2021

Tees Valley Combined Authority

Policy

Anti-Fraud and Corruption

Version Control					
Issue No	**Version**	**Policy Author**	**Date**	**Approved for issue**	**Next Scheduled Review Date**
01	Draft	Angela Smith	12/07/19		July-2021

Policy

1.0 Introduction

1.1 TVCA is committed to reducing fraud, bribery and corruption within the organisation, to ensure funds are used as they are intended. TVCA will seek the appropriate disciplinary, regulatory, civil and criminal sanctions against fraudsters and where possible, will attempt to recover losses.

2.0 Purpose

2.1 The purpose of this policy is to:

2.1.1 Improve the knowledge and understanding of all TVCA staff, irrespective of their position, about the risk of fraud, bribery and corruption within the organisation.

2.1.2 Promote an anti-crime culture and an environment where staff feel able to raise concerns and understand that fraud, bribery and corruption is unacceptable.

2.1.3 Set out the Combined Authority's responsibilities in terms of deterrence, prevention, detection and investigation of fraud, bribery and corruption.

2.1.4 Ensure appropriate sanctions are considered following an investigation, which may include internal disciplinary action, civil recovery and/or criminal prosecution.

3.0 Scope

3.1 This policy applies to all individuals working at all levels including Board, Executive and Non-Executive Members (including co-opted members), Honorary Members of the Board, Members, employees (whether permanent, fixed-term, or temporary), consultants, contractors, vendors, suppliers, service users, trainees, seconded, home-workers, casual staff and agency staff, interns and students, agents, sponsors, volunteers, employees and committee members of organisations funded by TVCA, employees and principals of partner organisations, or any other internal and external stakeholders or persons associated with TVCA and any other parties who have a business relationship with TVCA wherever located (collectively referred to as "Staff") in this Policy.

3.2 This policy is not intended to provide a comprehensive approach to preventing and detecting fraud, bribery and corruption.

3.3 Any abuse or non-compliance with this policy or procedures will be subjected to a full investigation and appropriate disciplinary action.

4.0 Policy Particulars

4.1 The Combined Authority has a responsibility to protect public funds for which we are responsible. Fraud on public funds is unacceptable therefore the Combined 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 suitably resourced anti-fraud strategy.

4.2 In terms of the Combined Authority and the functions it delivers, the levels of fraud detected nationally are very low and as such the risk of fraud to the Combined Authority is considered low.

4.3 This Policy will be focused on employee related fraud and procurement fraud.

4.4 The Combined 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 Combined Authority and public bodies in general.

4.5 The Combined Authority is clear it will not tolerate any impropriety by employees, members or third party organisations, and will ensure appropriate sanctions are considered following an investigation. This may include appropriate internal disciplinary action, civil recovery and/or criminal prosecution following a full investigation.

5.0 Definitions

5.1 Fraud

5.1.1 Fraud involves **dishonestly** making a false representation, failing to disclose information or abusing a position held, with the intention of making a gain or causing a loss. The gain or loss does not have to succeed, as long as the intent is there.

5.1.2 The Fraud Act 2006 came into force on 15th January 2007 and applies in England, Wales and Northern Ireland.

5.1.3 Fraud by false representation – a representation can be in words, written or communicated by conduct. There must be knowledge that the representation was untrue or misleading.

5.1.4 Fraud by failing to disclose – not declaring something (verbally or in writing) when there is a legal duty to disclose that information.

5.1.5 Fraud by abuse of position – occupying a position in which you are expected to safeguard, or not to act against, the financial interests of another person or organisation, and abusing that position.

5.1.6 Further areas for consideration are – possession of articles for use in fraud and the making or supplying articles for use in fraud.

5.1.7 Actions that could be seen to constitute fraud include, but are not limited to:

- Any dishonest or deceptive act;
- Making fraudulent statements e.g. falsifying timesheets, travel and subsistence, sick or special leave
- Theft, destruction of property or data, or misappropriation of funds;
- Impropriety in the handling and reporting of money or financial transactions;
- Subletting;
- Profiteering because of inside knowledge of the company's activities;
- Disclosing confidential information;
- Obtaining goods, money or services by deception
- Intimidation or exploitation
- False accounting/invoicing and / or the destruction, removal or inappropriate use of records;
- Serious misuse of IT or communications systems; and

5.2 Bribery and Corruption

5.2.1 Bribery and corruption involves offering, promising or giving a payment or benefit-in-kind in order to influence others to use their position in an improper way to gain an advantage.

5.2.2 Offences of bribing another person:

The Bribery Act 2010 makes person (P), guilty of an offence if either of the following two cases apply:

- P offers, promises or gives a financial or other advantage to another person, and P intends the advantage to induce a person to perform improperly a relevant function or activity, or to reward a person for improper performance of such a function or activity.

- P offers, promises or gives a financial or other advantage to another person, and P knows or believes that the acceptance of the advantage would itself constitute the improper performance of a relevant function or activity.

5.2.3 Offences relation to being bribed:

The Bribery Act 2010 makes person (R) guilty of an offence if any of the following applies:

- R requests, agrees to receive or accepts a financial or other advantage intending that, in consequence, a relevant function or activity should be performed improperly (whether by R or another person).
- R requests, agrees to receive or accepts a financial or other advantage, and the request, agreement or acceptance itself constitutes the improper
- R requests, agrees to receive or accepts a financial or other advantage as a reward for the improper performance (whether by R or another person) of a relevant function or activity.
- In anticipation of or in consequence of R requesting, agreeing to receive or accepting a financial or other advantage, a relevant function or activity is performed improperly by R or by another person at R's request or with R's assent or acquiescence.

5.2.4 Failure of a commercial organisation to prevent bribery (Section 7 of the Bribery Act 2010):

A relevant commercial organisation (e.g. TVCA) is guilty of an offence under this section if a person associated with the organisation bribes another person intending to obtain or retain business for the organisation, or to obtain or retain advantage in the conduct of business for the organisation.

5.2.5 However, it is a defense for the organisation to prove that it had in place adequate procedures designed to prevent persons associated with the organisation from undertaking such conduct.

6.0 Responsibilities within the Organisation

6.1 Through our day to day work, we are in the best position to recognise risks within our own areas of responsibility. We also have a duty to ensure that those risks are identified and eliminated. This section outlines the roles and responsibilities of individuals within TVCA who can contribute to protecting it by reporting fraud and other irregularities.

6.2 Chief Executive (CEO)

6.2.1. The Chief Executive must ensure adequate policies and procedures are in place to protect the organisation.

6.3 Audit & Governance Committee

6.3.1 The Audit & Governance Committee are responsible for seeking assurance that TVCA has adequate arrangements in place for countering fraud and this will include, but is not limited to TVCA.

6.4 Director of Finance

6.4.1 The Director of Finance as S73 Officer has the overall responsibility for funds entrusted to the organisation as the accountable officer

6.4.2 The Director of Finance prepares documents and maintains detailed financial procedures and systems which apply the principles of separation of duties and internal checks to supplement those procedures and systems.

6.4.3 The Director of Finance will co-ordinate any suspected cases of fraud, bribery and corruption.

6.4.4 The Director of Finance will, depending on the outcome of the initial investigations, inform appropriate senior management of suspected cases of fraud, bribery and corruption, especially in cases where the loss may be above an agreed limit or where the incident may lead to adverse publicity

6.4.5 The Director of Finance will consult and take advice from the Human Resources (HR) Advisor, if a member of staff is to be interviewed or disciplined. The Director of Finance will not conduct a disciplinary investigation, but the employee may be subject to a separate investigation by HR.

6.5 Internal and External Audit

6.5.1 The role of internal and external audit includes reviewing controls and systems and ensuring compliance with financial instructions. The external auditors have a statutory duty to ensure TVCA has in place adequate arrangements for the prevention and detection of fraud, bribery and corruption. Auditors have a duty to pass on any suspicions of fraud, bribery or corruption to the Director of Finance.

6.6 Human Resources (HR)

6.6.1 HR will liaise closely with the managers from the outset if an employee is suspected of being involved in fraud, bribery or corruption. HR will also ensure appropriate use of TVCA’s Disciplinary Policy and Procedure. HR will advise those involved in the investigation on matters of employment law and other procedural matters such as disciplinary and complaints procedures as requested. Close liaison between any appointed external agencies and HR will be essential to ensure that parallel sanctions are effectively applied in a coordinated manner.

6.6.2 HR will conduct robust pre-employment checks at the recruitment stage for all employees, (temporary, fixed term and permanent) and refer any discrepancies to the CEO. Checks will include identification, eligibility to reside and work in the UK, qualifications, membership of professional body, references/previous employment and when relevant, DBS and health checks.

6.7 Managers

6.7.1 Managers are responsible for ensuring policies, procedures and processes within their local area are adhered to and kept under constant review including conducting risk assessments and mitigating identified risks.

6.7.2 Managers have a responsibility to ensure staff are aware of fraud, bribery and corruption and understand the importance of protecting the organisation from it. Managers are also responsible for the enforcement of disciplinary action for staff who fail to comply with policies and procedures.

6.7.3 Any instances of actual or suspected fraud, bribery or corruption brought to the attention of a manger should be reported to the Director of Finance immediately. It is important that managers do not investigate any suspected financial crimes themselves.

6.8 All Employees

6.8.1 All staff are required to comply with TVCA policies and procedures and apply best practice to prevent fraud, bribery and corruption (for example in the areas of procurement, personal expenses and ethical business behaviour). Staff should be made aware of their own responsibilities in protecting TVCA from these crimes.

6.8.2 Employees who are involved in or manage internal control systems should receive adequate training and support in order to carry out their responsibilities.

6.8.3 Employees are expected to act in accordance with the standards laid down by their professional institutes, where applicable, and have a personal responsibility to ensure that they are familiar with them.

6.8.4 Employees also have a duty to protect the assets of the organisation, including information, goodwill and property. This means, in addition to maintaining the normal standards of personal honesty and integrity, all employees should always:

- avoid acting in any way that might cause others to allege or suspect them of dishonesty;
- behave in a way that would not give cause for others to doubt that TVCA employees deal fairly and impartially with official matters; and
- be alert to the possibility that others might be attempting to deceive.

6.8.5 All employees have a duty to ensure that public funds are safeguarded, whether they are involved with cash or payment systems, receipts or dealing with contractors or suppliers.

6.8.6 All employees should be aware that fraud and bribery will normally, dependent upon the circumstances of the case, be regarded as gross misconduct thus warranting summary dismissal without previous warnings. However, no such action will be taken before an investigation and a disciplinary hearing have taken place. Such actions may be in addition to the possibility of criminal prosecution.

6.8.7 Employees will not request or receive a bribe from anybody, nor imply that such an act might be considered. This means that you will not agree to receive or accept a financial or other advantage from a former, current or future client, business partner, contractor or supplier or any other person as an incentive or reward to perform improperly your function or activities.

6.8.8 The Standing Orders and Standing Financial Instructions place an obligation on all staff and Non-Executive Directors to act in accordance with best practice. In addition, all TVCA staff and Non-Executive Directors must declare and register any interests that might potentially conflict with those of TVCA.

6.8.9 If an employee suspects that fraud, bribery or corruption has taken place, it should be reported as per the Whistleblowing policy.

6.9 Information Management and Technology

6.9.1 The Head of Information Security (or equivalent) will contact Finance Director immediately in all cases where there is suspicion that IT is being used for fraudulent purposes. This includes inappropriate internet/intranet, e-mail, telephone, PDA use and any offence under the Computer Misuse Act 1990. Human Resources will be informed if there is a suspicion that an employee is involved.

6.10 External parties

6.10.1 Those organisations undertaking work on behalf of TVCA are expected to maintain strong anti-fraud principles and have adequate controls in place to prevent fraud when handling public funds and dealing with customers on behalf of TVCA. Contractors and sub-contractors acting on TVCA's behalf are responsible through contractual arrangements put in in place during the tender process and through contracts, for compliance with the Bribery Act 2010.

6.11 External communications

6.11.1 Individuals (be they employees, agency staff, locums, contractors or suppliers etc) must not communicate with any member of the press, media or another third party about a suspected fraud as this may seriously damage the investigation and any subsequent actions to be taken. Anyone who wishes to raise such issues should discuss the matter with either the Finance Manager or Director of Finance.

7.0 Detection

7.1 The Combined 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 and HMRC Taxes and Management Act Returns. This may require the lawful sharing of information.

- The risk based Internal Audit Plan that ensures areas with a risk of fraud are reviewed at least annually.

7.2 All stakeholders are expected to report suspected fraud, corruption or bribery.

8.0 Prevention

8.1 There are a number of key requirements to support the prevention of fraud, corruption and bribery:

- Establishment of adequate internal control systems to prevent fraud is the responsibility of management.

- Senior Management Team responsibility 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 Combined 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 controls systems.

9.0 Response

9.1 Any instances of fraud, bribery or corruption will be dealt with through the following mechanisms:

- All instances of fraud must be notified to Internal Audit services to enable the completion of annual returns and to form evidence to support the Annual Governance Statement.

- Investigations will be conducted by the most appropriate section as follows. Fraud involving employees will be investigated in accordance with the Combined Authority's disciplinary procedures by a nominated Investigation Manager, with support as required from the Internal Audit service.

- The Combined 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 CEO and the Monitoring Officer.

9.2 The outcome of the investigation of fraud against the Combined Authority will be reported appropriately to ensure systems and procedures are amended and to act as a deterrent.

9.3 The Combined Authority recognises the need to ensure that its investigation process is not misused. Any abuse such as the raising of malicious allegations by officers/members will be dealt with as a disciplinary matter.

9.4 Sanctions – including recovery of proceeds could be through POCA, Civil Law or Pensions.

10.0 Sanctions and Redress

10.1 This section outlines the sanctions that can be applied and the redress that can be sought against individuals who commit fraud, bribery or corruption against TVCA and should be read in conjunction with TVCA's Disciplinary Policy and procedure.

10.2 The types of sanction which the organisation may apply are:

- Civil – sanctions can be taken to recover money and/or assets which have been fraudulently obtained, including interest and costs.
- Criminal – TVCA will work in partnership with the police and the Crown Prosecution Service to bring a case to court against an offender. Outcomes, if found guilty, can include fines, a community order or imprisonment and of course, a criminal record.
- Disciplinary – procedures will be initiated when an employee is suspected of being involved in fraudulent or illegal activity.

10.3 TVCA will seek financial redress whenever possible to recover losses to fraud, bribery and corruption. Redress can take the form of confiscation under the Proceeds of Crime Act 2002, compensation orders, a civil order for repayment, or a local agreement between TVCA and the offender. Funds recovered will be returned to TVCA for use as originally intended.

11.0 Reporting a Suspicion of Fraud, Bribery or Corruption

11.1 If any person has any concerns about fraud, bribery or corruption, they must inform the Director of Finance immediately [unless the Director of Finance is implicated, in which case they should follow the Whistleblowing Policy procedures. The individual should not contact the Police unless it is an emergency

11.2 Appendix A provides a summary of do's and don'ts when it comes to suspecting and reporting fraud. Managers are encouraged to copy this to staff and place it on the notice boards in their department.

11.3 All reports of fraud, bribery and corruption will be taken seriously and are thoroughly investigated. The Director of Finance will make sufficient enquiries to establish whether or not there is any foundation to the suspicion that has been raised. If the allegations are found to be malicious, they will also be considered for further investigation to establish their source.

11.4 TVCA wants all employees to feel confident that they can report any fraud, bribery and corruption suspicions without any risk to themselves. In accordance with the Public Interest Disclosure Act 1998, TVCA has produced a Whistleblowing Policy which should be read in conjunction with this policy.

11.5 The Public Interest Disclosure Act 1998 gives protection to individuals, casual workers, agency workers and contractors, non-employees etc who make a qualifying disclosure when they reasonably believe it is in the public interest for them to do so.

12.0 Policy Framework

12.1 The policy framework surrounding prevention of fraud, bribery and corruption includes:

- Code of Conduct including protocol on Gifts & Hospitality, Declarations of interest and Confidential Reporting ("whistleblowing") policy and Complaints procedures.
- Procurement Policy
- Financial Procedure 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

13.0 Process for Monitoring Compliance and Effectiveness

13.1 The following monitoring processes are in place for this policy:

Standard	Monitoring Process
Monitoring arrangements for compliance and effectiveness.	A report will be provided to the approving committee.
Responsibility for conducting the monitoring/audit	This policy shall be reviewed in line with legislative requirements and based upon continual usage by the Audit & Governance Committee.
Frequency of the monitoring/audit.	Annual.
Process for reviewing results and ensuring improvements in performance occur.	The Audit & Governance Committee will review the results of this audit/report. The discussion and action any action points will be recorded in the minutes and followed up by the Audit & Governance Committee.

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Appendix A

Fraud and corruption: what to do and not to do; A desktop guide for TVCA

FRAUD is the dishonest intent to obtain a financial gain from, or cause a financial loss to, a person or party through false representation, failing to disclose information or abuse of position.

BRIBERY is the deliberate use of bribery or payment of benefit-in-kind to influence an individual to use their position in an unreasonable way to help gain advantage for another.

DO

- **note your concerns**

Record details such as your concerns, names, dates, times, details of conversations and possible witnesses. Time, date and sign your notes.

- **retain evidence**

Retain any evidence that may be destroyed, or make a note and advise the Finance Director.

- **report your suspicion**

Confidentiality will be respected – delays may lead to further financial loss.

DO NOT

- **confront the suspect or convey concerns to anyone other than those as detailed within this policy**

Never attempt to question a suspect yourself; this could alert a fraudster or accuse an innocent person.

- **try to investigate, or contact the police directly**

Never attempt to gather evidence yourself unless it is about to be destroyed; gathering evidence must take into account legal procedures in order for it to be useful. The Head of Finance can conduct an investigation in accordance with legislation.

- **be afraid of raising your concerns**

The Public Interest Disclosure Act 1998 protects employees who have reasonable concerns. You will not suffer discrimination or victimisation by following the correct procedures.

- **Do nothing**

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AGENDA ITEM 12

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

24 JULY 2019

REPORT OF THE HEAD OF FINANCE AND RESOURCES

CORPORATE RISK REGISTER

SUMMARY

This report presents the Tees Valley Combined Authority Corporate Risk Register as at July 2019. The risk register is reviewed on a regular basis by senior management and sets out the key corporate risks that have been identified.

RECOMMENDATIONS

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

DETAIL

1. This report presents the Tees Valley Combined Authority Corporate Risk Register as at July 2019. The risk register is prepared in accordance with the adopted Risk Management Strategy and is reviewed on a regular basis by senior management. The risk register sets out the:

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

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

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

CONSULTATION & COMMUNICATION

5. None required.

EQUALITY & DIVERSITY

6. Not Applicable

Name of Contact Officer: Martin Waters
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Telephone Number: 01642 526527

TVCA Corporate Risk 2019/20 - Q1

					Net Risk Score							
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C01	Failure to secure agreement on new future investment priorities. (DELIVERY)	• Delay in agreeing and approving projects to go into Investment Programme, potentially affecting spend • Impacts TVCA's reporting on progress to Government • Adverse effect on 5 year Government funding conversation and ability to bid successfully for other funding for projects • Failure to achieve SEP targets and outcomes • Reputational damage	Investment Director/ Chief Executive	• TVCA Cabinet has overall responsibility for developing & delivery of SEP, investment decisions and allocation of resources. • Proposals developed at early stage with Leaders & Mayor, LEP members, chief officers, partners and Government departments • Agreement to Investment Plan • Investment report on every Cabinet agenda as standing item • Additional EOIs reviewed as received • Oversight by TV Management Group • Quarterly performance reporting being developed • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19 • Assurance Framework agreed by Cabinet and submitted to Government - now adopted • New processes and delegations agreed and implemented	5	2	10	↑5			•New Assurance Framework sets out process for dealing with potential new projects.	Oct-19
C02	Impact of Brexit including financial uncertainty and economic instability that affects national policy in relation to devolution and impact on ability to progress TVCA devolution strategy; in particular uncertainty on UK successor regime to ESIF funding (UKSPF) and the loss of Local Growth Funding. (FINANCIAL)	• Loss of funding for Tees Valley compared to previous ESIF position • Failure to maximise opportunities for funding for Tees Valley under replacement arrangements	Strategy Director/ Investment Director	• Ongoing engagement with Leaders & Mayor, Chief Officers and Government departments • Continuation of focus on TVCA delivery of objectives and SEP • Secured ESIF guarantee from Government • Engagement with Government on future funding plans post Brexit, including tracking progress with development of proposed UK Shared Prosperity Fund • Action plan agreed for utilising remainder of ESIF funding • Working with partners on proposals for current open call (closing Aug19)	4	3	12	-	• Liaison with other CAs/LEPs	Ongoing	Regular liaison with Government on progress with UK Shared Prosperity Fund.	Oct-19

TVCA Corporate Risk 2019/20 - Q1

					Net Risk Score							
Ref	Risk description/ Category	Consequences	Owner	Current Controls	Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Further Controls Required	Deadline	Comments	Review Date
C03	Failure to secure sufficient additional resources to fund proposed activity. (FINANCIAL)	• Impacts ability to deliver SEP targets and outcomes • Reputational damage	Investment Director/ Chief Executive	• Robust Medium Term Financial Plan, Treasury Management Strategy and Investment Plan agreed by TVCA Cabinet • Submission of high calibre bids for external funding • Identifying opportunities for efficiency and greater impact • Ongoing review of EZ income potential • Ongoing review of commercial potential of individual projects and TVCA borrowing potential/limits • Ten Year Investment Plan 2019-29 agreed (including funding plan) • Regular meetings between Mayor and Government Ministers • Progress with external funding bids reported quarterly to TVMG	4	3	12	↑4	• Investments identified in Local Industrial Strategy need to feed into Investment Plan and other external sources • Tightening up bidding process - approval to bid and actual bid sign off			Oct-19
C04	Transport specific funding secured from government is not sufficient to meet TVCA programme aspirations eg significant local contributions sought that are not affordable and/or TCF not awarded on ongoing annual basis. (FINANCIAL)	• Not all planned transport projects can be delivered • Harder to leverage other funding • Reputational damage	Investment Director/ Head of Transport	• Transport programme going to Cabinet July19 • Programme shared with DfT • Reporting to DfT on progress with TCF spending/delivery • Ongoing liaison with DfT re specific projects eg New Tees Crossing, Darlington Northern Link Road, Darlington Station, Middlesbrough Station • Ongoing discussions with key partners eg Northern Rail, Train Operators, TfN • Annual conversation with government	4	3	12	-				Oct-19

TVCA Corporate Risk 2019/20 - Q1

					Net Risk Score							
Ref	Risk description/ Category	Consequences	Owner	Current Controls	Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Further Controls Required	Deadline	Comments	Review Date
C05	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation. (FINANCIAL)	• Delay to delivery of STDC planned development • Potential effect on TVCA's other funding priorities • TVCA cannot itself meet funding requirements • Loss of potential inward investment into Tees Valley, and other opportunities to meet SEP objectives • Reputational damage	Chief Executive/ Director of Finance & Resources	• STDC established as legal entity 1st Aug 2017 • Official launch 23rd August 2017 • STDC Constitution requires significant financial matters to be referred to TVCA Cabinet • TVCA FD is also FD of STDC • STDC Board meeting regularly • Continued dialogue with Government • £123m funding secured in 2017 Budget • £14m in 2018 budget • CSR Business Case to HMG 2019 • New Chief Exec of STDC recruited	4	4	16	↑4			No Comprehensive Spending Review this financial year	Oct-19
C06	Obligations undertaken by STDC have potential financial impact on TVCA	• Strain on TVCA funding availability • Potential effect on other TVCA funding programmes • Reputational damage	Director of Finance & Resources	• STDC Constitution requires significant financial matters to be referred to TVCA Cabinet • TVCA FD is also FD of STDC	4	2	8	-				Oct-19
C07	Failure to provide sufficient capacity to deliver TVCA functions. (DELIVERY)	• Delays in terms of TVCA business being transacted, decisions being made and funding being defrayed • Potential loss of investment into Tees Valley • Delays in achieving SEP and Investment Plan outputs and outcomes • Potential effect on ability to bid credibly for additional funding • Key staff may decide to leave organisation • Reputational damage	Chief Executive	• Oversight by Senior Management Team • Reviews being implemented • Recruitment under way in key areas (eg AEB devolution) • Review as part of budget work 2019/20	4	3	12	-	• Review current core costs and capacity within the context of the new 10 year Investment Plan	Sep-19		Oct-19

TVCA Corporate Risk 2019/20 - Q1

					Net Risk Score							
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C09	Failure to build and maintain relationships with key partners. (REPUTATIONAL)	• Potential impact on LEP and its operation • More difficult to maximise opportunities to access significant external funding which requires a partnering approach • Delays to agreement and delivery of Investment Programme • Risk to achievement of SEP targets and outcomes • Reputational damage	Chief Executive/ Senior Leadership Team	• Regular Cabinet meetings (including LEP Board members) •Regular portfolio holders meetings and briefings • Directors/Heads meeting LA officers regularly • MOU agreed with Teesside University • Regular liaison with other key partners eg. CPI, MPI, TWI, Digital City • Regular liaison with other key government agencies (and others) eg. Homes England, Highways England, HLF, Arts Council, BLF, TfN etc • Perception study undertaken • Revised Assurance Framework sets out role for Management Group - consultee in Chief Exec's delegation	4	2	8	-			MOU being developed with Durham University.	Oct-19
C10	Uncertainty within the economy and/or the political environment (DELIVERY)	• Potential delay to agreement of TVCA priorities and approval of any additional funding • Potential delay in delivering SEP targets and outcomes • Reputational damage	Chief Executive	• Engagement with local MPs • Engagement with local authorities	4	3	12	-	• Engagement with national parties	Ongoing		Oct-19

TVCA Corporate Risk 2019/20 - Q1

					Net Risk Score							
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C11	Failure to pass the first Gateway Review. (FINANCIAL) See sub risks A & B below	• Inability to deliver Ten Year Investment Plan and strategic investments and achieve SEP outcomes • Increased workload/resources required to address issues • Risk to future funding of organisation • Significant reputational damage	Investment Director/ Strategy Director	• Bi-monthly meeting with Government officials and on-going dialogue • Assurance framework (monthly conversation with BEIS) • Internal Audit arrangements • Annual conversations with Government • Mayor meets with Government Ministers • Funding cannot progress to final approval unless it meets the Assurance Framework process. • Staff trained on the Assurance Framework to ensure it is being adhered to • Tees Valley baseline prepared by SQW • Evaluation plan agreed between SQW, Tees Valley & government	5	3	15	↑5	• Quarterly reporting to Cabinet on Investment outputs and outcomes to be introduced • Annual Review to be undertaken	Oct-19 Mar-20		Oct-19
C11-A	• Failure to deliver the existing pipeline of funding commitments and achieve targeted spend. (DELIVERY)	• Impacts TVCA's reporting on progress to Government • Adverse effect on 5 year Government conversation & ability to bid successfully for other funding • Failure to achieve SEP targets and outcomes • Reputational damage	Investment Director	• Creation and utilisation of Advanced Funding to provide upfront investment in feasibility work • Programme monitoring and review • Assurance Process in place • Investment Plan Risk Register operational • Regular Investment Panel meetings • Regular liaison with BEIS • Monthly spend reviews in place • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19 • Revised Assurance Framework in place • Quarterly review of progress against internal business plan targets • Investment Plan delivery progress reported to Cabinet quarterly	5	2	10	-				Oct-19

TVCA Corporate Risk 2019/20 - Q1

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score: Impact (1-5)	Net Risk Score: Probability (1-5)	Net Risk Score: Score (1-25)	Change since last Q	Further Controls Required	Deadline	Comments	Review Date
C11-B	• Failure to manage funding in order to deliver maximum value for money. (FINANCIAL)		Investment Director/ Director of Finance & Resources	• Revised Assurance Framework approved by Cabinet on 15th March and submitted to Government	4	2	8	-	• Review to ensure appropriate development, appraisal and assurance processes are operating effectively and efficiently	Sep-19		Oct-19
C12	Failure to detect fraud. (FINANCIAL)	• Loss of funds that cannot be recovered and applied to required spend objectives • Staff resources required to manage any instances • Reputational damage	Head of Finance, Resources & Housing	• Internal audit arrangements • External audit arrangements • Internal expenditure approvals process • Assurance Framework for Investment • Review of internal expenditure process undertaken • Staff induction process	5	2	10	-	• Review need for particular controls on specific new funding programmes	Ongoing		Oct-19
C13	Failure to deliver commitments entered into in the Tees Valley devolution deal (See C07 for delivery of projects which were part of devo deal) (DELIVERY)	• Impacts TVCA's reporting on progress to Government • Adverse effect on 5 year Government conversation & ability to bid successfully for other funding • Reputational damage	Chief Executive	• Implementation Plan agreed with Government • Annual Conversation with Government • Bi-monthly meeting with Government officials and on-going dialogue/reporting • Management of Business Plan • Most activities from the devolution deal now form part of TVCA's day to day work eg transport priorities • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19 • Revised EOI and business case process/documentation • Revised Assurance Framework in place	5	2	10	-				Oct-19

TVCA Corporate Risk 2019/20 - Q1

					Net Risk Score							
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C14	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed. (REPUTATIONAL)	• Confusion is possible in terms of relations with partners, businesses and residents • Reputational damage	Head of Communication	• Head of Communication & Marketing appointed • Communications plan in place • Regular liaison with Mayor's office on Comms issues & opportunities • Communications Strategy agreed	3	3	9	-				Oct-19
C15	Senior Officers leave the organisation. (DELIVERY)	• Insufficient senior resource to lead and manage the workload over a critical period • Delays to delivery of Investment Programme • Risk of not delivering against SEP targets and outcomes • Loss of confidence by Government funding departments • Resource not available to lead on funding bids • Reputational damage • Reduction in TVCA team morale	Chief Executive	• Regular SLT meetings • Regular management one to ones Director of Finance & Resources appointed • Director Business & Skills to be appointed	2	4	8	-				Oct-19
C16	Failure to agree a Local Industrial Strategy with Government. (REPUTATIONAL)	• Failure or delay causes reputational damage • Potential impact on ability to bid for national funding • Potential impact on regeneration of STDC site • Potential impact on SEP delivery as a consequence	Strategy Director	• Detailed timetable in place for the Local Industrial Strategy is being undertaken • Partners to support development of Local Industrial Strategy identified • Engagement events held with key sectors in Jan19 • Thematic engagement events Feb19 • Workshops with LEP and Leaders May19	4	2	8	-	• Comms engagement to be planned		Deadline for locally agreed draft - Jul19. Sign off with Government currently end summer 19 but might come forward.	Oct-19

TVCA Corporate Risk 2019/20 - Q1

					Net Risk Score							
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C17	Failure to operate within TVCA constitution. (LEGAL)	• TVCA decisions are ultra vires • Risk of legal challenge, leading to delay to delivery of TVCA programme(s) and costs • Reputational damage	Chief Executive/ Monitoring Officer	• Updates and reports to TVCA Cabinet • Briefing and engagement with Constituent Authorities' members • Public Consultation undertaken • A&G Committee in place and meeting regularly • O&S Committee in place and meeting regularly • Additional independent members recruited to A&G Committee • Involvement of Monitoring Officer at Cabinet and in review of papers/decisions • Legal & Commercial Manager in post	5	1	5	-				Oct-19
C18	Failure to maximise influence at regional/national level. (REPUTATIONAL)	• Missed opportunities to influence national and regional agendas to benefit Tees Valley • Potential impact on ability to bid for and get additional funding • Potential impact on delivery of SEP	Chief Executive/ Strategy Director	• LEP Meetings • LEP Network representation • Mayoral role • Membership of Transport for the North • Membership of NP11 • Maintaining key relationships (see C09 above)	2	2	4	-				Oct-19
C19	Failure to operate DTVA successfully and turn around operation. (DELIVERY)	• Reputational damage • Increased financial liabilities (see C17) • Impact on economic growth potential	Chief Executive/ Investment Director	• Strategic partnership joint venture with Stobart Aviation • 5 year Business Plan agreed annually • Agreed governance arrangements • Monitoring & reporting to DTVAL & Goosepool ltd Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny • Martin Waters overseeing TVCA investment	4	2	8	-				Oct-19

TVCA Corporate Risk 2019/20 - Q1

					Net Risk Score							
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C20	More TVCA investment required for DTVAL than is foreseen in Business Plan. (FINANCIAL)	• Increased financial liabilities • Impact on other projects/programmes	Chief Executive/ Finance Director	• Strategic partnership joint venture with Stobart Aviation • 5 year Business Plan agreed annually • Agreed governance arrangements • Monitoring & reporting to DTVAL & Goosepool ltd Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny • Martin Waters overseeing TVCA investment	4	2	8	-				Oct-19

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Tees Valley Combined Authority Audit & Governance Committee

Forward Plan 2019/20

Standing Items

Minutes from the Previous Meeting/Action Tracker
Feedback from Cabinet
Forward Plan
Date and Venue of the Next Meeting

<table>
<tr><th>Date</th><th>Venue</th><th>Item / Responsible Officer</th></tr>
<tr><td>Thursday July 25th 2019</td><td>Cavendish House
Teesdale Business Park
Stockton On Tees
TS17 6QY</td><td>Election of Chair and Vice Chair
Annual Governance Statement
Corporate Risk Register
Internal Audit Progress Report
External Audit Progress Report</td></tr>
<tr><td>Thursday September 26th 2019</td><td>Cavendish House
Teesdale Business Park
Stockton On Tees
TS17 6QY</td><td>Final Accounts 2018-19 – following External Audit.
Cyber Security Report
Corporate Risk Register
Internal Audit Progress Report
External Audit Progress Report</td></tr>
<tr><td>Thursday November 14th 2019</td><td>Cavendish House
Teesdale Business Park
Stockton On Tees
TS17 6QY</td><td rowspan="2">TBC</td></tr>
<tr><td>Thursday February 28h 2020</td><td>Cavendish House
Teesdale Business Park
Stockton On Tees
TS17 6QY</td></tr>
</table>

To be arranged	Treasury Management Strategy – Meeting with external advisors

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