

Audit and Governance Committee Agenda

Date: Thursday 27th September, 2018 at 10.00 am

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

Membership:

Councillor Nicky Walker – Chair (Middlesbrough Borough Council)
Councillor Bob Norton (Redcar & Cleveland Borough Council)
Councillor Barry Woodhouse (Stockton-On-Tees Borough Council)
Councillor Charles Johnson (Darlington Borough Council)
Councillor Ann Marshall (Hartlepool Borough Council)
Paul Bury (Independent member)
Christopher White (Independent member)
Jonny Mumby (Independent member)

AGENDA

- 1. Introductions**
- 2. Apologies for absence**
- 3. Declarations of interest**
- 4. Minutes**
Minutes of previous meetings for confirmation and signature
- 5. Action Tracker**
Attached
- 6. Internal Audit Report**
Attached
- 7. Corporate Risk Register**
Attached
- 8. External Audit Annual Letter**
Attached
- 9. Treasury Management Annual Report**
Attached

Audit and Governance Committee Agenda

10. South Tees Development Corporation Risk Committee: Nomination of Representative

Attached

11. Forward Plan

Attached

Date of the next meeting

Thursday 29th November 2018 at 10.00am

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people please contact: Sarah Brackenborough – 01642 524423 – sarah.brackenborough@teesvalley-ca.gov.uk

Tees Valley Combined Authority Declaration of Interests Procedures

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

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority to further their personal or private interests.
3. There are two types of personal interests covered by the constitution:
 - a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
 - i. a member of your family;
 - ii. any person with whom you have a close association;
 - iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
 - iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
 - v. any body as described in paragraph 3 b) i) and ii) below.
 - b. Any other personal interests. You have a personal interest in any business of the Combined Authority where it relates to or is likely to affect:
 - i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Combined Authority;
 - ii. any body which:
 - exercises functions of a public nature;
 - is directed to charitable purposes;
 - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

Declarations of interest relating to the Councils' commercial role

4. The constituent councils of the Combined Authority are closely integrated with its governance and financial arrangements, and financial relationships between the Combined Authority and Councils do not in themselves create a conflict of interest for Council Leaders who are also Combined Authority Cabinet members. Nor is it a conflict of interest if the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

Procedures for Declaring Interests

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

Register of Interests

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

Declaration of Interests at Meetings

7. The Combined Authority will include a standing item at the start of each meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.
8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.
9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before

leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

Sensitive Information

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

These minutes are in draft form until approved at the next Committee meeting and are therefore subject to amendments.

**TEES VALLEY COMBINED AUTHORITY
AUDIT AND GOVERNANCE COMMITTEE**

**Cavendish House, Teesdale Business Park, Stockton-On-Tees TS17 6QY
Wednesday 25th July 2018 at 10.00am**

MEETING

ATTENDEES

Members

Cllr Nicola Walker (Chair)	Middlesbrough Borough Council	MBC
Cllr Barry Woodhouse	Stockton Borough Council	SBC
Cllr Charles Johnson	Darlington Borough Council	DBC
Cllr Ann Marshall	Hartlepool Borough Council	HBC
Cllr Bob Norton	Redcar & Cleveland Borough Council	R&CBC
Paul Bury	Independent Member	
Christopher White	Independent Member	

Officers

Sally Henry	Governance & Personnel Officer	TVCA
Andy Bryson	Finance Manager	TVCA
Martin Waters	Head of Finance Resources, & Housing	TVCA
Wendy Starks	Adult Skills Lead Officer	TVCA

Also in Attendance

Mark Kirkham	Partner	
Gareth Roberts	Senior Manager	Mazars LLP Mazars LLP

Apologies

Jonny Munby	Independent Member	
Julie Gilhespie	Interim Managing Director	

<p>AGC 01/18</p> <p>AGC 02/18</p>	<p>INTRODUCTIONS</p> <p>Introductions from Committee members and officers were made.</p> <p>DECLARATIONS OF INTEREST</p> <p>There were no interests declared.</p>	
<p>AGC 03/18</p>	<p>MINUTES</p> <p>Consideration was given to the minutes of the meeting held on 31st May 2018.</p> <p>Paul Bury commented that he had submitted apologies for the meeting however they were not minuted.</p> <p>Chris White noted his comments on the internal audit plan had not been minuted. He had challenged the value of the internal audit plan to the Combined Authority as it appeared focused on compliance issues rather than business risks.</p> <p>The Committee Resolved that the minutes be amended to reflect the changes requested and then be confirmed and signed as a correct record.</p>	
<p>AGC 04/18</p> <p>AGC 05/18</p> <p>AGC 06/18</p>	<p>ACTION TRACKER</p> <p>Consideration was given to the Action Tracker. The Chair requested that more detail be included in future and that an update be provided for each outstanding action</p> <p>Resolved: The Action Tracker will provide more detail of all outstanding Actions.</p> <p>ELECTION OF CHAIR</p> <p>Martin Waters invited nominations for the position of Committee Chair for the forthcoming civic year.</p> <p>Cllr Nicola Walker was nominated by Cllr Charles Johnson, with the nomination seconded by Cllr Bob Norton.</p> <p>Resolved: Cllr Walker be elected as Chair of the Committee</p> <p>ELECTION OF VICE CHAIR</p> <p>Cllr Barry Woodhouse was nominated by Cllr Nicola Walker, with the nomination seconded by Cllr Bob Norton.</p>	

<p>AGC 07/18</p>	<p>Resolved: Cllr Woodhouse be elected as Vice Chair of the Committee.</p> <p>EXTERNAL AUDIT – COMPLETION REPORT & VALUE FOR MONEY OPINION</p> <p>Consideration was given to a report which illustrates the findings of the external audit completed by Mazars for the financial year ended 31st March, 2018. A letter was tabled which provided members with updates on those matters which had been marked as outstanding within the Audit Completion Report dated 16th July, 2018. These matters were:-</p> <ul style="list-style-type: none"> • Consolidation; • Pension-related entries; • Review & Closure processes, including checking the amended version of the financial statements produced by finance as a result of our audit; Review of Events after the Balance Sheet date; • Review of Events after the Balance Sheet date. <p>After presenting the report, Gareth Roberts expressed his gratitude to the finance staff at both the Combined Authority and Stockton BC for their full commitment to this work.</p> <p>Resolved: The Committee noted the contents of the External Auditor report.</p>	
<p>AGC 08/18</p>	<p>ANNUAL FINANCIAL STATEMENTS 17/18 – APPROVAL AFTER AUDIT</p> <p>The Committee were presented with the final Financial Statements for 2017/18 following their external audit. The Committee were advised that the Authority is required to produce an Annual Statement of Accounts that sets out the financial position for that period. For the first time, the financial statements incorporate the South Tees Development Corporation to form group accounts for the Combined Authority. The Accounts have been audited by Mazars LLP.</p> <p>The Committee were advised by Mark Kirkham that there are no issues which would impact on their ability to approve the accounts.</p> <p>Resolved: The Committee noted the Annual Financial Statements.</p>	
<p>AGC 09/18</p>	<p>ANNUAL GOVERNANCE STATEMENT</p> <p>The Committee were presented with a report which provides the Annual Governance Statement for 2017/18. All Authorities are required to conduct a review at least once a year of the effectiveness of its governance framework. The report is to be</p>	

	<p>presented to the Combined Authority Cabinet on 27th July. The work acknowledges the Tees Valley Combined Authority's responsibility for ensuring that proper arrangements are in place around the governance of its affairs.</p> <p>There was a discussion surrounding the relationship between STDC and the Combined Authority with the Committee requesting clarity on their audit and governance role within the context of The Group, TVCA and STDC. It was agreed that a paper be provided to the next meeting.</p> <p>Resolved:-</p> <ul style="list-style-type: none"> • The Committee note the Draft Annual Governance Statement; • A paper be provided to the September Audit & Governance meeting that provides clarity on the audit and governance role within the context of The Group, TVCA and STDC. 	
<p>AGC 09/18</p>	<p>ADULT EDUCATION BUDGET</p> <p>The Committee were provided with the Adult Education Budget project Risk Register for comment. The risk register is currently in development stage. The register will be updated and submitted to the Committee on a regular basis throughout the transitional year. The Committee commented that many of the items listed were due to be reviewed before the meeting and requested an up to date version of the register be circulated post-meeting.</p> <p>The Committee further commented that there were many acronyms and abbreviations included which were not explained fully and it was requested that a summary of these be included in future versions.</p> <p>Resolved:</p> <ul style="list-style-type: none"> • The Committee noted the report; • The Register be updated and re-circulated post-meeting; • A summary of acronyms and abbreviations be included in the future. 	
<p>AGC 10/18</p>	<p>FORWARD PLAN</p> <p>Resolved that:-</p> <ul style="list-style-type: none"> • Additional items discussed at the meeting to be added to the current forward plan; • The forward plan was noted. <p>DATE OF NEXT MEETING</p> <p>The date of the next meeting to be held at Cavendish House on 27th September 2018 is noted.</p>	

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

Meeting	Item	Action	Owner	Target Date	Update
1 st Dec. 2017	Internal Audit Report	A summary of recommendations and an Exec Summary be included in the future	SBC		Actioned
1 st Dec. 2017	Corporate Risk Register	A&G to be included under current controls for Risk Ref CO2	TVCA		Actioned
31 st May 2018	Corporate Risk Register	Committee requested that political uncertainty and changes to senior management be added to the Corporate Risk Register	TVCA	26 th July 2018	Actioned
31 st May 2018	Internal Audit Report	Committee requested details of time spent on specific tasks by the Internal Audit Service	SBC		
31 st May 2018	Annual Financial Statements	Committee requested further details of Authority's approach to investment of resources	SBC	27 th September 2018	Treasury Management Report to be presented to Committee at September meeting.

AGENDA ITEM 6

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

27 SEPTEMBER 2018

REPORT OF THE CHIEF FINANCIAL OFFICER

INTERNAL AUDIT PROGRESS REPORT

SUMMARY

This report provides members with an update of the work carried out by the Internal Audit Section and the progress made against the Audit Plan 2018/19.

RECOMMENDATIONS

It is recommended that:-

1. The current position as identified in the attached update report is noted.

DETAIL

Background

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

Current Position

2. A plan of work was agreed with this committee on 28 February 2018. The service has in place an audit charter which outlines how the service will be delivered to the combined authority and was also agreed on 28 February 2018. Services are being delivered to the combined authority in-line with this charter.
3. The attached update report shows the current position in respect of the progress against the 2018/19 audit plan and the results of the work that has been undertaken. There has been a little slippage due to staff absence, this is not expected to impact on being in a position to issue an overall opinion by June 2019.

FINANCIAL AND LEGAL IMPLICATIONS

None

RISK ASSESSMENT

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.

COMMUNITY STRATEGY IMPLICATIONS

None

CONSULTATION

N/A

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Background Papers (Unpublished documents that have been relied on, to a material extent in preparing the report and do not include sensitive information. If there are any such documents, which is likely to be rare, the author of the report should arrange for any such document(s) to be published on behalf of the TVCA and be available for inspection at the TVCA Offices)

- PLEASE NUMBER EACH PAGE OF THE REPORT AND ANY APPENDICES.
- EACH APPENDIX SHOULD BE REFERRED TO IN THE REPORT AND HIGHLIGHTED IN **BOLD PRINT**.
- ON COMPLETION OF THE REPORT PLEASE ENSURE THAT ALL TEXT IS BLACK AND THIS PAGE IS DELETED

Members' Interests (the text below is fixed and should not be altered by the author).

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Tees Valley Combined Authority's (TVCA) code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the TVCA he/she must then, **in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or

- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code)

Disclosable Pecuniary Interests

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 20** of the code.

Members are required to comply with any procedural rule adopted by the TVCA which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 21** of the code)

INTERNAL AUDIT AUDIT COMMITTEE UPDATE REPORT

2018/19

1 AUDIT PROGRESS

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

2018/19 Audit Plan Current Position as at 14 September 2018

Department	Audit		Status	Assurance	Recommendations			
	ID	Name			L	M	H	C
Corporate	2606	Absence Management	Ready to Start					
Xentrall	2607	Active Directory	In Progress					
Corporate	2651	Anti-Fraud Management	In Progress					
Xentrall	2652	Bank Reconciliation	Not Started					
Corporate	2613	Business Continuity & Emergency Planning	Not Started					
Xentrall	2623	Change Control	Complete	Full Assurance	0	0	0	0
Xentrall	2611	Cloud Computing	Not Started					
Xentrall	2617	Creditors	In Progress					
Xentrall	2634	Debtors	In Progress					
Corporate	2602	Financial Management	Not Started					
Xentrall	2672	Firewalls	Under Review					
Xentrall	2645	Hardware Controls	Not Started					
Xentrall	2628	ICT Project Management	Not Started					
Corporate	2637	Information Management	Not Started					
Xentrall	2661	Network Management	Not Started					
Corporate	2660	Officer Payments - Mileage	In Progress					
Xentrall	2674	Payroll & Absence Recording	In Progress					
Xentrall	2663	Pension Payments/Early Retirement	Complete	Full Assurance	0	0	0	0
Corporate	2669	Performance Management Framework	Not Started					
Corporate	2667	Recruitment Services	Ready to Start					

Xentrall	2633	Remote Access	In Progress					
Finance & Business Services	2664	Treasury Management	Not Started					
Finance & Business Services	2665	VAT	In Progress					
Xentrall	2657	Virtualisation	In Progress					

Internal Audit Report

Audit Name	Page
Change Control	1
Pension Payments/Early Retirement	2



Internal Audit Summary Report

Change Control

Executive Summary

The audit work undertaken covered appropriate aspects of ICT change control for Xentrall Shared Services ICT. Sample records selected for the audit work included changes undertaken for Stockton Borough Council and Darlington Borough Council, as well as changes to core ICT infrastructure designated as Xentrall changes.

The corporate controls in place for ICT Change Control have not been subject to a specific audit recently. Consequentially there were no previous audit recommendations to consider.

The scope of the audit work undertaken was as follows:

- Consider whether appropriate documented change control standards/procedures have been established.
- Establish whether responsibility for change control has been clearly assigned and an appropriate authorisation process has been put in place.
- Ascertain whether changes are adequately documented.
- Consider whether change control requests are effectively managed.

Summary of Conclusions

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

- Appropriate and comprehensive documented change control standards/procedures were considered to have been established.
- All appropriate parties have access to the standards/procedures and relevant training in their use is available to all appropriate parties as required.
- Responsibility for change control has been clearly assigned.
- There is an appropriate authorisation process in place for change requests.

The level of documentation specified for change control records was considered to be adequate.

Change control requests were considered to be effectively managed.

Audit Opinion:

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

Recommendations

The following recommendations (where applicable) have been made to management all of which require agreement and an action plan agreed to implement.

No Recs Made

Pension Payments/Early Retirement

Executive Summary

Background & Scope

Xentrall HR are responsible for the administration in respect of payments made on behalf of employees and employers with regards to the DBC, SBC, TVCA, Teachers and NHS Pension Schemes.

The scope of the audit was to ensure the following:-

- To ensure that there are documented procedures and policies in place which are available to all appropriate officers so that agreed processes are followed when undertaking critical activities, in order to prevent placing people and service delivery at risk.
- To ensure that all employees and employers pension contributions & early retirement calculations are correct based on current, accurate and complete information, which complies with all relevant criteria.
- To ensure that all relevant information is easily accessible, safeguarded and shared appropriately.

Executive Summary

Overall a sound system of controls was found to be in place and no recommendations have been made.

Summary of Conclusions

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

- Xentrall Payroll procedures for both DBC and SBC are in place but are both out-of date and will require bringing up-to-date, in accordance with the implementation of the new Payroll and HR system Resource-Link which is due to go 'live' in November 2018.
- All officers involved in the audit displayed a good knowledge of the procedures in place for pension deductions and retirement benefits to ensure continuity in the absence of key staff.
- Employee and employer contributions are being deducted at the correct rate.
- Pensionable pay is calculated correctly, based on the PSE element the type of payment was for.
- Early retirement notifications are processed accurately and timely submissions are made to the relevant pension fund administrator.
- Monthly employee and employer contributions paid to the relevant pension fund administrator are accurately calculated and submitted in a timely manner.
- Following guidance received from the pensions administrator, automatic enrolment as part of the transitional delay process was not applied to staff in October 2017, who had previously 'opted-out' of joining a pension scheme.
- For additional voluntary contributions and miscellaneous payments made by officers, these are accurately made and supporting correspondence was sighted for each, wherever possible.
- Electronic and manual information is held securely, with access restricted to appropriate officers only.
- Information published to provide guidance to staff in respect of early retirement and pension payments is well presented and easily understood.
- Staff are aware of the LGPS set retention period in respect of relevant information and adhere to this.
- The sharing of information with relevant parties is undertaken in accordance with appropriate data protection protocols.

Audit Opinion:

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

Recommendations

The following recommendations (where applicable) have been made to management all of which require agreement and an action plan agreed to implement.

No Recs Made

AGENDA ITEM 7

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

27th SEPTEMBER 2018

REPORT OF THE INTERIM MANAGING DIRECTOR

CORPORATE RISK REGISTER

SUMMARY

This report presents the Tees Valley Combined Authority Corporate Risk Register as at the end of the second quarter of 2018/19.

RECOMMENDATIONS

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

DETAIL

1. The Corporate Risk Register attached at **Appendix 1** covers the period 1st July 2018 to 30th September 2018 and details risks that affect the operations of the Combined Authority as a whole. They have been reviewed and assessed using the assessment method included in the Risk Management Strategy.
2. No risks have been assessed as high risks in this period.
3. No Business Plan risks have been escalated to the Corporate Risk Register during the last quarter.
4. All risks are constantly being managed and reviewed.
5. The Corporate Risk Register will be shared with Audit and Governance Committee on a quarterly basis.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

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

CONSULTATION

9. None required.

Name of Contact Officer: Julie Gilhespie

Post Title: Interim Managing Director

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Corporate Risk 2018/19

Ref	Risk description	Current assessment			Change since last Q	Current Controls	Further Controls Required	Deadline	Comments	Review Date
		Impact (1-5)	Probability (1-5)	Score (1-25)						
C01	Impact of Brexit on EU funding, including financial uncertainty and economic instability that affects national policy in relation to devolution and impact on ability to progress TVCA devolution strategy	3	3	9	-	<ul style="list-style-type: none"> • On going engagement with Leaders & Mayor, Chief Officers and Government departments • Continuation of focus on TVCA delivery of objectives and SEP • Secured ESIF guarantee from Government • Engagement with Government on future funding plans post Brexit 	• Liaison with other CAs/LEPs	Ongoing	Regular liaison with Government on progress with UK Shared Prosperity Fund	Dec-18
C02	Failure to operate within TVCA constitution	4	1	4	-	<ul style="list-style-type: none"> • Updates and reports to TVCA Board • Briefing and engagement with Constituent Authorities members • Public Consultation undertaken • A&G Committee in place and meeting regularly • O&S in place and meeting regularly • Additional independent members recruited to A&G Committee 			Cabinet agreed to aim for 50/50 gender balance on LEP Board by 2020 (linked to LEP Review requirements). Implementation plan is being drafted.	Dec-18
C03	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation	4	3	12	-	<ul style="list-style-type: none"> • STDC established as legal entity 1st Aug 17 • Official launch 23rd August • Board meeting regularly • Continued dialogue with Government • £123m funding secured in Budget 				Dec-18
C04	Failure to deliver commitments entered into in the devolution deal (See C07 for delivery of projects which were part of devo deal)	3	3	9	-	<ul style="list-style-type: none"> • 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 • Undelivered/ partially delivered devolution deal elements are subject to ongoing discussions with Government 	• Revised Business Plan in preparation	Oct-18	See C07 & C08	Dec-18

Corporate Risk 2018/19

Ref	Risk description	Current assessment			Change since last Q	Current Controls	Further Controls Required	Deadline	Comments	Review Date
		Impact (1-5)	Probability (1-5)	Score (1-25)						
C05	Failure to secure sufficient additional resources to fund proposed activity	3	3	9	-	<ul style="list-style-type: none"> • Robust Medium Term Financial Plan, Treasury Management Strategy and Investment Plan agreed by TVCA Board • Submission of high calibre bids for external funding • Identifying opportunities for efficiency and greater impact • Ongoing review of EZ income potential • Ongoing review of commercial potential of individual projects and TVCA borrowing potential/limits • Investment prioritisation exercise undertaken 	<ul style="list-style-type: none"> • Mayor to meet with Government Ministers as required/ on specific projects • Investment identified in Local Industrial Strategy need to feed into Investment Plan and other external sources 	Ongoing	10 year Investment Plan in development	Dec-18
C06	Failure to manage funding in order to deliver maximum value for money	2	2	4	-	<ul style="list-style-type: none"> • Investment Plan agreed and operational (with regular reporting to Cabinet) • Creation and utilisation of Assurance Framework • Interim Head of Finance in post • Strategic Investment Team monitoring in place • Investment Panel in place • Investment plan reviewed as part of budget process - approved at Cabinet • Strategic Investment Team review - additional capacity 	<ul style="list-style-type: none"> • Revised EOI and business case process/ documentation review • Assurance Framework under review - revised Government guidance expected 	Oct-18 Autumn-18	Strategic Investment team review complete - additional resource in place	Dec-18
C07	Failure to deliver the existing pipeline of funding commitments and achieve targeted spend	3	3	9	-	<ul style="list-style-type: none"> • Creation and utilisation of Development Fund to provide upfront investment in feasibility work • Programme monitoring and review • Assurance Process in place • Strengthened capacity with addition of new Finance Director and Legal & Commercial Manager posts • Investment Plan Risk Register operational • Regular Investment Panel meetings • Investment plan reviewed as part of budget process - approved at and regularly reported to Cabinet • Regular liaison with BEIS • Monthly spend reviews in place 	<ul style="list-style-type: none"> • Assurance Framework to be revised - awaiting Government guidance 	Autumn-18 Ongoing	Work ongoing on Assurance Framework compliance - awaiting Government guidance.	Dec-18

Corporate Risk 2018/19

Ref	Risk description	Current assessment			Change since last Q	Current Controls	Further Controls Required	Deadline	Comments	Review Date
		Impact (1-5)	Probability (1-5)	Score (1-25)						
C08	Failure to secure agreement on the future investment priorities	3	3	9	-	<ul style="list-style-type: none"> • TVCA Board has overall responsibility developing & delivery of SEP, investment decisions and allocation of resources. • Proposals developed at early stage with Leaders & Mayor, LEP members, chief officers, partners and Government departments • Agreement to Investment Plan • Investment report on every Cabinet agenda as standing item • First invitation for proposals to the Tees Valley Investment Fund has taken place and pipeline agreed • Additional EOIs reviewed as received • Oversight by TV Management Group • 6 month review of Investment Plan undertaken • Investment plan reviewed as part of budget process - approved at Cabinet spring 2018 • Reviewed current commitments and future pipeline, discussed prioritisation of spend to 2021. 	<ul style="list-style-type: none"> • Preparation of 10 year Investments Plan • Terms of Reference of Tees Valley Management Group under review along with Terms of Reference of Thematic Groups 	Nov-18 Nov-18	Prioritisation discussions held, revised pipeline being prepared. 10 year Investment Programme in preparation.	Dec-18
C09	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed	3	3	9	-	<ul style="list-style-type: none"> • Head of Communication & Marketing appointed • Communications Plan in place 	<ul style="list-style-type: none"> • Communication & engagement strategy being developed 	Nov-18		Dec-18
C10	Failure to provide sufficient capacity to deliver TVCA functions	3	3	9	-	<ul style="list-style-type: none"> • Oversight by Senior Management Team • Reviews being implemented 				Dec-18

Corporate Risk 2018/19

Ref	Risk description	Current assessment			Change since last Q	Current Controls	Further Controls Required	Deadline	Comments	Review Date
		Impact (1-5)	Probability (1-5)	Score (1-25)						
C11	Failure to pass the first Gateway Review	5	2	10	-	<ul style="list-style-type: none"> • Bi-monthly meeting with Government officials and on-going dialogue • Assurance framework • Internal Audit • Devolution deal proposals • Annual conversations with government 	<ul style="list-style-type: none"> • Mayor to meet with Government Ministers • Funding cannot progress to final approval unless it meets the Assurance Framework process. To be signed of by Investment Director • Staff to be trained on the Assurance Framework to ensure it is being adhered to • Staff to be fully engaged in development of logic models and the evaluation plan • Assurance Framework being reviewed - awaiting guidance from Government • SQW to prepare Tees Valley baseline 	Ongoing Nov-18 Sep-18	Linked to C06, C07, C08 TVCA still needs to provide information to SQW on completed projects and projects in delivery that are spending devolution funds.	Dec-18
C12	Failure to maximise influence at regional/national level	2	2	4	-	<ul style="list-style-type: none"> • LEP Network representation • Mayoral Role • Membership of Transport for the North • Membership of NP11 	<ul style="list-style-type: none"> • Mayor to meet with Government Ministers and other stakeholders 	Ongoing		Dec-18
C13	Failure to build and maintain relationships with key partners	3	3	9	-	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Review of of Management Group architecture, terms of reference and membership • Design and commission a perception study 	Oct-18 Nov-18	MOU being developed with Durham University. Visions and values work to commence.	Dec-18

Corporate Risk 2018/19

Ref	Risk description	Current assessment			Change since last Q	Current Controls	Further Controls Required	Deadline	Comments	Review Date
		Impact (1-5)	Probability (1-5)	Score (1-25)						
C14	Failure to detect fraud	5	2	10	-	<ul style="list-style-type: none"> Internal audit External audit Internal expenditure approvals process Assurance Framework for Investment 	<ul style="list-style-type: none"> Review of internal expenditure process 	Oct-18		Dec-18
C15	Political uncertainty	5	2	10	-	<ul style="list-style-type: none"> Engagement with local MPs Engagement with local authorities 	<ul style="list-style-type: none"> Engagement with national opposition party 	Dec-18		Dec-18
C16	Senior Officers leave the organisation	3	3	9	-	<ul style="list-style-type: none"> Interim MD appointed Regular SLT meetings Regular management one to ones 	<ul style="list-style-type: none"> Permenant MD to be appointed 	Dec-18		Dec-18
C17	Failure to agree a Local Industrial Strategy with Government	4	2	8	-	<ul style="list-style-type: none"> Detailed planning/ timetabling for the development of the Local Industrial Strategy is being undertaken Partenrs to support development of Local Industrial Strategy are being identified 	<ul style="list-style-type: none"> Workshops with LEP and Leaders to take place throughout process 	Nov-18	Deadline for locally agreed draft - May19	Dec-18



Annual Audit Letter

Tees Valley Combined Authority (and Group)
Year ended 31 March 2018





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Tees Valley Combined Authority (the Authority) and Tees Valley Combined Authority Group (the Group) for the year ended 31 March 2018. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Area of responsibility	Summary
Audit of the financial statements	Our report issued on 27 July 2018 included our opinion that the financial statements: <ul style="list-style-type: none">• give a true and fair view of the Authority's and Group's financial position as at 31 March 2018 and of the expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
Other information published alongside the audited financial statements	Our report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our report concluded that we are satisfied that in all significant respects, the 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.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 27 July 2018 we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.
Statutory reporting	Our report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and Group and whether they give a true and fair view of the Authority's and Group's financial position as at 31 March 2018 and of the financial performance for the year then ended.

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

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

Our approach to materiality

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

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

The table below provides details of the overall materiality levels applied in the audit of the financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on approximately 2% of gross revenue expenditure.	£1.537m for the Authority and for the Group.
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£46,000

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2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

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

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls (Authority and Group)</p> <p>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. Because of 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.</p>	<p>We addressed this risk by performing audit work in respect of:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • 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. 	<p>Our work provided the assurance we sought. We found no indication of management override of controls.</p>
<p>Defined benefit liability valuation and associated IAS19 entries (Authority and Group)</p> <p>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.</p>	<p>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 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.</p>	<p>Our work provided the assurance we sought. We found no indication of material estimation error in respect of pensions.</p>

Internal control recommendations

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

Our work did not identify any significant internal control deficiencies in 2017/18 to report, and there are none from 2016/17 to follow up.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

We are required to consider 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; and
- working with partners and other third parties.

Our auditor's report, issued to the Authority on 27 July 2018, stated that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<ul style="list-style-type: none"> • 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. • Devolution deal in place and available on the Authority's website. • Authority has a Strategic Economic Plan (SEP) plan in place for the period 2016 to 2026 available on the Authority's website. • Management team in place. • No data quality issues in respect of performance information we are aware of. • Audit and Governance Committee meets on a quarterly basis, and oversees internal and external audit, risk management and treasury management; albeit quoracy of meetings has been a challenge in 2017/18. • Medium term planning is undertaken and budget plans are in place; current Medium Term Financial Plan (MTFP) covers the period 2017/18 to 2020/21, 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. • Detailed presentation on risk management arrangements and key risks to March 2017 Audit and Governance Committee. • Programme of Internal Audit work at the Authority delivered by Stockton BC's IA function (under delegated arrangements). • 2017/18 draft Annual Governance Statement produced, and final approved by Cabinet. 	Yes

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3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<ul style="list-style-type: none"> • MTFP in place for the period the period 2017/18 to 2020/21. • Nature of the Authority’s funding and expenditure (i.e. largely grant income which is then paid out to approved schemes linked to the SEP) does not indicate any significant risk to achievement of strategic priorities in the short term. 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. • Significant element of the Authorities funding is being used to deliver capital projects. These assets are however not held by the Authority. SEP identifies future large scale capital schemes/priorities. • HR and payroll functions provided by Stockton BC and Authority relies on HR policies and procedures shared with the BC. The Authority is continuing to review capacity as its responsibilities continue to further develop. 	Yes
Working with partners and other third parties	<ul style="list-style-type: none"> • Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 LAs 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 and website identify organisations that the Authority is working with in order to achieve its strategic priorities; Tees Valley Strategic Transport Plan – Connecting the Tees Valley. • The Authority has written procedures for procuring products and services, which are within its Constitution (part 6). 	Yes

Significant audit 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 work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant value for money audit risks. We kept this under review throughout our audit and were satisfied that there were no significant risks apparent.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

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

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Authority which must be responded to publically.

We have not exercised any of these statutory reporting powers.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 27 July 2018.

Other information published alongside the financial statements

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

5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Governance Committee in May 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£30,000	£30,000
Other non-Code work	Nil	Nil

Fees for other work

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

6. FORWARD LOOK

Financial outlook and operational challenges

The Authority has a MTFP in place and keeps it updated. To some extent, its long term funding arrangements remain unclear as a result of the UK's planned exit from the European Union, and the impact this will have on European funding streams, and funding from the UK central government. Officers are keeping the position under close review.

Effective prioritisation of projects is key if the Authority is to deliver its ambitions and the Authority will also need to keep its own internal control arrangements under review as it takes on new devolved functions to ensure they remain fit for purpose, including the devolution of the Adult Education Budget for which it has been preparing for some time, as well as the oversight it has over the South Tees Development Corporation.

How we will work with the Authority

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key focus in the coming year will be the adoption of IFRS 9 Financial Instruments, a new standard for 2018/19, which changes the approach to financial assets and accounting for impairment.

Looking further ahead, IFRS 16 Leases is a new standard to be adopted from 2019/20, which establishes a new model for lessees and removes existing classifications of operating and finance leases.

We will continue to offer accounting workshops to finance officers and the audit team will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

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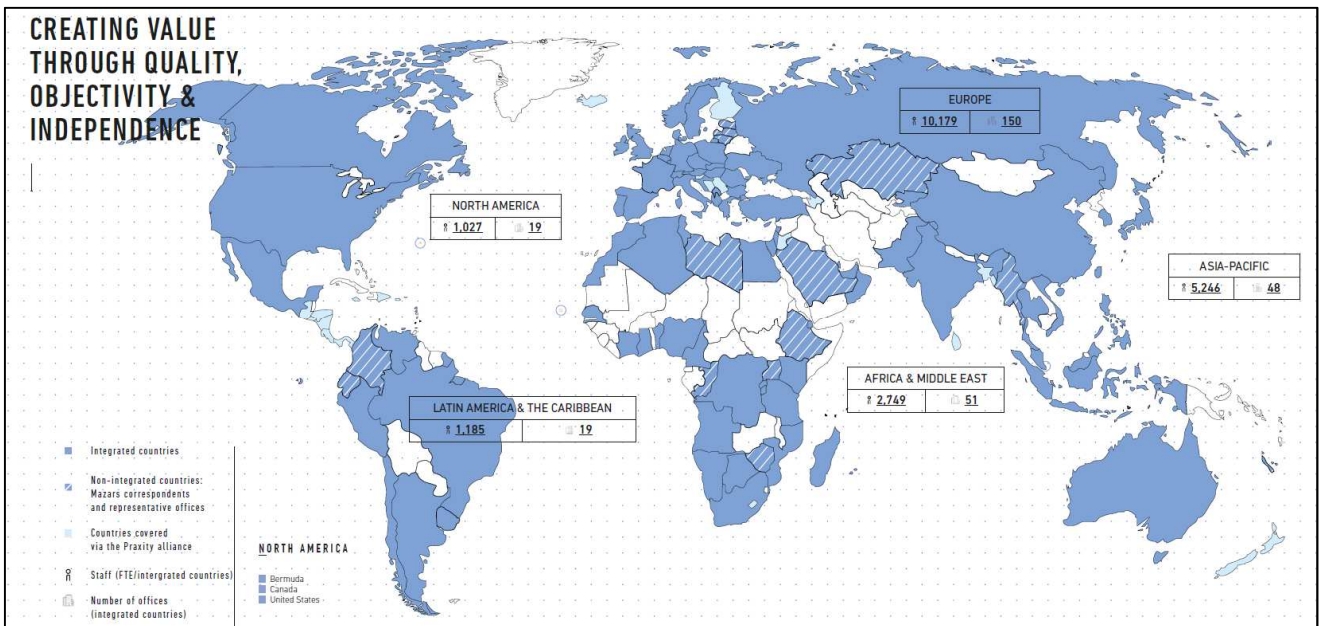
6. Forward look

MAZARS AT A GLANCE

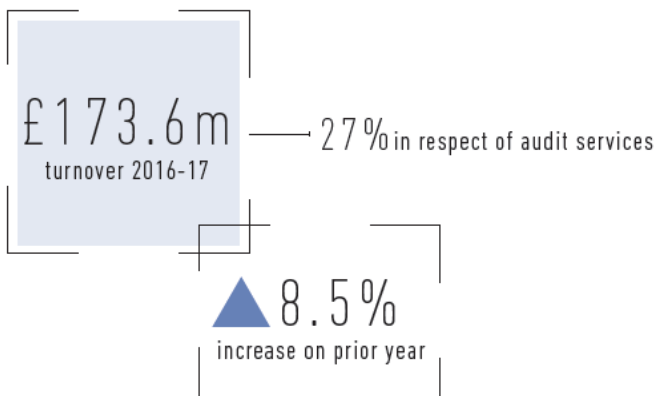
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AGENDA ITEM 8

**REPORT TO THE TEES VALLEY
COMBINED AUTHORITY AUDIT AND GOVERNANCE COMMITTEE**

27 SEPTEMBER 2018

**REPORT OF
DIRECTOR OF
FINANCE**

TREASURY MANAGEMENT STRATEGY – ANNUAL REPORT 2017/18

SUMMARY

This report informs Members of the performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by the Authority in January 2017.

RECOMMENDATION

Members note the content of the report.

Introduction

The Authority operates under the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

The Authority's Treasury Management Strategy for 2017/18 was approved at Cabinet on 31st January 2017. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's Treasury Management Strategy.

External Context

Economic commentary

2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

Financial markets: The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

Credit background:

Credit Metrics

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

Money Market Fund regulation: The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV,

providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Other developments:

In February, Arlingclose advised against lending to Northamptonshire County Authority (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.

In March, following Arlingclose's advice, the Authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Authority's lending list.

Local Authority Regulatory Changes

Revised CIPFA Codes: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Authority, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

The Authority will be preparing the Capital Strategy for the 2019/20 financial year.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability identified and reported.

MHCLG Investment Guidance and Minimum Revenue Provision (MRP): In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for

borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

The definition of prudent MRP has been changed to “put aside revenue over time to cover the Capital Financing Requirement (CFR)”; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

MiFID II: As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Local Context

On 31st March 2018, the Authority had net investments of £91.0m arising from its revenue and capital income and expenditure, an increase on 2017 of £12.98m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m	2017/18 Movement £m	31.3.18 Actual £m
General Fund CFR	0.00	0.00	0.00
Less: Other debt liabilities	0.00	0.00	0.00
Borrowing CFR	0.00	0.00	0.00
Less: Usable reserves	-87.32	-7.61	-94.93
Less: Working capital	9.30	-5.37	3.93
Net investments	-78.02	-12.98	-91.00

The Authority’s strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2018 and the year-on-year change in show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %
Long-term borrowing	0.00	0.00	0.00	
Short-term borrowing	0.00	0.00	0.00	
Total borrowing	0.00	0.00	0.00	0.00%
Long-term investments	0.00	0.00	0.00	
Short-term investments	50.01	14.99	65.00	
Cash and cash equivalents	28.01	-2.01	26.00	
Total investments	78.02	12.98	91.00	0.46%
Net investments	-78.02	-12.98	-91.00	

Note: the figures in the table are from the balance sheet in the Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

The increase in total investments in table 2 represents funding received in advance of expenditure.

Borrowing Activity

The Authority at the 31st March 2018 had received the relevant powers required to borrow but did not enter into any borrowing agreements. All expenditure of a capital nature was funded through grants and contributions.

Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18, the Authority's investment balance ranged between £131.0m and £91.0m million due to timing differences between income and expenditure. The year-end investment position is show in table 3 below.

Table 3: Investment Position (Treasury Investments)

Counterparty	Amount £	Rate %	Start Date	Maturity Date
Nat West SIBA	3,000,000	0.15%	n/a	Call Account
Bank of Scotland	5,000,000	0.50%	06-Mar-18	06-Jun-18
Bank of Scotland	5,000,000	0.36%	06-Oct-17	06-Apr-18
Coventry Building Society	5,000,000	0.44%	11-Oct-17	11-Apr-18
Goldman Sachs	5,000,000	0.43%	29-Dec-17	06-Apr-18
Santander 95 days notice	10,000,000	0.60%	17-Aug-15	95 day Notice
Birmingham City	5,000,000	0.47%	22-Jan-18	23-Apr-18
Leeds City	5,000,000	0.40%	19-Oct-17	19-Apr-18
Merthr Tydfil	5,000,000	0.50%	22-Dec-17	23-Apr-18
Northamptonshire	5,000,000	0.55%	05-Oct-17	05-Jul-18
Stirling	3,000,000	0.50%	23-Nov-17	23-May-18

Suffolk County	5,000,000	0.75%	09-Mar-18	08-Jun-18
Surrey Heath Council	2,000,000	0.50%	22-Nov-17	22-May-18
Telford & Wrekin	5,000,000	0.75%	15-Mar-18	15-Jun-18
Standard Life	10,000,000	0.29%	06-Oct-16	Money Market Fund
Federated	10,000,000	0.29%	06-Oct-16	Money Market Fund
Insight	3,000,000	0.28%	17-Dec-16	Money Market Fund
	91,000,000	0.46%		

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

In furtherance of these objectives, and due to the high level of investments diversification was required so that limits with counterparties set within the treasury management strategy were not breached during the year. Funds were diversified between Money Market Funds, Banks and Local Authorities. Due to the developing capital expenditure plans of the Authority it was not prudent to diversify further into higher yielding asset classes during 2017/18. The progression of risk and return metrics are shown in the extracts from Arlingclose quarterly investment benchmarking in table 4 below.

Table 4: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return
31.03.2017	4.76	A+	81%	43	0.39%
30.06.2017	4.34	AA-	68%	39	0.32%
30.09.2017	4.53	AA-	68%	40	0.30%
31.12.2017	4.49	AA-	56%	69	0.40%
31.03.2018	4.35	AA-	62%	35	0.48%
Similar LAs	4.14	AA-	48%	39	1.07%
All LAs	4.24	AA-	55%	35	1.05%

*Weighted average maturity

Due to the interest rate rise during 2017/18 the Authority has been able to secure higher rates as the year progressed and initial investments matured. The intention during 2018/19 is to invest funds over longer periods which will mean the authority should achieve higher rates of return.

Financial Implications

The outturn for investment income received in 2017/18 was £0.395 million on an average portfolio of £109.03 million.

Other Non-Treasury Holdings and Activity

Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. The Authority did not hold any of these types of investments during 2017/18.

Compliance Report

The Director of Finance is pleased to report that the majority of treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy with the exception of one of the investment limits shown in table 6.

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

Table 5: Debt Limits

	2017/18 Maximum	31.3.18 Actual	2017/18 Operational Boundary £m	2017/18 Authorised Limit £m	Complied
Borrowing	0.0	0.0	0.0	10.0	✓
PFI & finance leases	0.0	0.0	0.0	0.0	✓
Total debt	0.0	0.0	0.0	10.0	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was above the operational boundary for 0 days during 2017/18.

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

Table 6: Investment Limits

Type of Institution	2017/18 Maximum	31.3.18 Actual	Financial Limit	Time Limit	Complied
UK central government (irrespective of credit rating)	£3m	£0m	Unlimited	Unlimited	✓
UK local authorities, Police & Crime Commissioners, Fire Authorities	£40m	£35m	£10m each	1 – 3 years	✓

UK banks with AAA, AA+, AA, AA-, A+ and A credit ratings	£35m	£25m	£15m each	1 year unsecured / 2 years secured	✓
UK banks with A- credit rating	£0m	£0m	£10m each	6 month unsecured / 1 year secured	✓
UK banks with BBB+ credit rating	£18m	£3m	£2.5m each	100 days unsecured / 6 months secured	x ¹
UK money market funds	£50m	£23m	£10m each	Unlimited	✓
UK building societies with AAA, AA+, AA, AA-, A+ and A credit ratings	£5m	£5m	£10m each	1 year unsecured / 2 years secured	✓
UK building societies with A- credit rating	£0m	£0m	£5m each	6 month unsecured / 1 year secured	✓
UK building societies with BBB+ credit rating	£0m	£0m	£1m each	100 days unsecured / 6 months secured	✓
UK building societies without a credit rating with assets greater than £250m	£0m	£0m	£5m each	6 month unsecured / 1 year secured	✓
Banks with AAA, AA+, AA, AA-, A+ and A credit ratings domiciled in AAA rated sovereign countries	£0m	£0m	£5m each	1 year unsecured / 2 years secured	✓

**see Table 4 above for values with individual counterparties as at 31st March 2018.*

¹This breach relates to the Authority's own bank Nat West which is used for day to day banking transactions. Further analysis is being undertaken with the Authority's Treasury Management service provider (Stockton Borough Council) to understand the nature of this breach with findings to be presented at Committee.

Treasury Management Indicators

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

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principle invested was:

	31.3.18 Actual	31.3.18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	£68m	75%	100%	✓
Upper limit on variable interest rate exposure	£23m	25%	100%	✓

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

Principal Sums Invested over 365 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

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

PRUDENTIAL INDICATORS 2017/18

Introduction: The *Local Government Act 2003* requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code is to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2017/18. Actual figures have been taken from or prepared on a basis consistent with, the Authority's statement of accounts.

Capital Expenditure: The Authority's capital expenditure and financing is summarised as follows.

Capital Expenditure and Financing	2017/18 Estimate £m	2017/18 Actual £m	Difference £m
Total Expenditure	64.2	43.15	-21.05
Capital Receipts	0	0.00	0
Grants & Contributions	64.2	40.33	-23.87

Revenue	0	2.82	2.82
Borrowing	0	0.00	0
Total Financing	64.2	43.15	-21.05

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

Capital Financing Requirement	31.03.18 Estimate £m	31.03.18 Actual £m	Difference £m
General Fund	0.0	0.0	0.0
Total CFR	0.0	0.0	0.0

Actual Debt: The Authority's actual debt at 31st March 2018 was as follows:

Debt	31.03.18 Estimate £m	31.03.18 Actual £m	Difference £m
Borrowing	0.0	0.0	0.0
Finance leases	0.0	0.0	0.0
Total Debt	0.0	0.0	0.0

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

Operational Boundary and Total Debt	31.03.18 Boundary £m	31.03.18 Actual Debt £m	Complied
Borrowing	0.0	0.0	✓
Other long-term liabilities	0.0	0.0	✓
Total Debt	0.0	0.0	✓

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

Authorised Limit and Total Debt	31.03.18 Limit £m	31.03.18 Actual Debt £m	Complied
Borrowing	10.0	0.0	✓
Other long-term liabilities	0.0	0.0	✓
Total Debt	10.0	0.0	✓

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

Ratio of Financing Costs to Net Revenue Stream	31.03.18 Estimate %	31.03.18 Actual %	Difference %
General Fund	0%	0%	0%

FINANCIAL IMPLICATIONS

1. Treasury Management Investment activity during 2016/17 generated income of £395k.

RECOMMENDATIONS

2. Members approve the content of the report.

LEGAL IMPLICATIONS

3. None.

RISK ASSESSMENT

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

CONSULTATION

5. Not applicable.

Julie Gilhespie
Director of Finance

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Members' Interests (the text below is fixed and should not be altered by the author).

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Tees Valley Combined Authority's (TVCA) code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the TVCA he/she must then, **in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code)

Disclosable Pecuniary Interests

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 20** of the code.

Members are required to comply with any procedural rule adopted by the TVCA which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 21** of the code)

AGENDA ITEM 10

**REPORT TO THE AUDIT AND
GOVERNANCE COMMITTEE**

27th SEPTEMBER 2018

REPORT OF THE GOVERNANCE MANAGER

**SOUTH TEES DEVELOPMENT CORPORATION AUDIT & RISK COMMITTEE:
NOMINATION OF REPRESENTATIVE**

SUMMARY

This report seeks a nomination from the Tees Valley Combined Authority (TVCA) Audit and Governance Committee for a member to serve on the Audit and Risk Committee of the South Tees Development Corporation (STDC).

RECOMMENDATIONS

Members are requested to nominate and approve a member to serve as the committee's representative on the South Tees Development Corporation Audit and Risk Committee.

DETAIL

1. The primary purpose of this committee is to assist the STDC board in fulfilling its oversight responsibilities in matters concerning risk. It also considers matters of governance and probity.
2. The Committee's Terms of Reference state that it provides "independent review of governance, risk management and control frameworks and oversees financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place."
3. Article 41 of the Constitution of the South Tees Development Corporation states "The Combined Authority's Audit and Governance Committee shall appoint one of its members to be a member of the Corporation's Audit and Risk Committee".
4. This requirement is reiterated in the Committee's Terms of Reference (Clause 2.1) which states "The A&R Committee shall, as a minimum comprise at least five members, which shall include: The Independent Chair, any 2 other nominated Board members; and a representative of the TVCA Audit and Governance Committee".

FINANCIAL IMPLICATIONS

5. None directly from this report

LEGAL IMPLICATIONS

6. The report relates to the Constitution of the South Tees Development Corporation, which sets out the appropriate statutory framework. The Constitution came in to effect on 13th June 2017 and is legally binding.

RISK ASSESSMENT

7. None directly from this report

CONSULTATION

8. None

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Teess Valley Combined Authority Audit & Governance Committee

Forward Plan 2018/19

Standing Items

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

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

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