TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Audit & Governance Committee Agenda

Date: Thursday 28th February 2019 at 2pm

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

Membership:
Councillor Nicky Walker – Chair (Middlesbrough Borough Council)
Councillor Barry Woodhouse – Vice Chair (Stockton-On-Tees Borough Council)
Councillor Bob Norton (Redcar & Cleveland Borough Council)
Councillor Charles Johnson (Darlington Borough Council)
Councillor Ann Marshall (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. **Minutes of meetings held on 20th November 2018 and 17th January 2019**

4. **Action Tracker**
   Attached

5. **Feedback from Cabinet Meetings since last Committee Meeting**
   - January 24th: Investment Plan
   - January 31st: Combined Authority Budget 2019/20

6. **Internal Audit Report**
   Attached

7. **External Audit Progress Report**
   Attached

8. **Treasury Management Strategy**
   Attached

9. **Corporate Risk Register**
   Attached

10. **Adult Education Budget Risk Register**
    Attached for information

11. **Internal Audit Arrangements**
**This report is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972*

12. **Forward Plan and scheduling of future meetings**

13. **Date and Time of Next Meeting:**

Friday 7th June 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: John Hart, 01642 524580 or john.hart@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.

Minutes

TEES VALLEY COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

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

Thursday 29th November+ 2018 at 10.00am

MEETING

ATTENDEES

Members

Cllr Nicola Walker (Chair)	Middlesbrough Borough Council
Cllr Charles Johnson	Darlington Borough Council
Cllr Ann Marshall	Hartlepool Borough Council
Cllr Bob Norton	Redcar & Cleveland Borough Council
Paul Bury	Independent Member
Jonny Munby	Independent Member

Officers

Sarah Brackenborough	Governance Manager	TVCA
Andy Bryson	Finance Manager	SBC
Martin Waters	Head of Finance Resources, & Housing	TVCA
Andrew Barber	Audit & Risk Manager	SBC
Ellis McBride	Business Administration Apprentice	TVCA

Also in Attendance

Gareth Roberts	Senior Manager	Mazars

Apologies

Cllr Barry Woodhouse	Stockton Borough Council
Christopher White	Independent Member

AGC 22/18	**INTRODUCTIONS** Introductions from Committee members and officers were made.	
AGC 23/18	**DECLARATIONS OF INTEREST** There were no interests declared.	
AGC 24/18	**MINUTES** Consideration was given to the minutes of the meeting held on 27th September 2018. A grammatical error was noted on page 3 – the word ‘provided’ should read ‘provider’. Resolved that the minutes be agreed as a true record.	
AGC 25/18	**ACTION TRACKER** Consideration was given to the Action Tracker. The Committee requested that completed actions be greyed out. They also requested that the risk register for the Adult Education Budget be circulated via email. It was agreed that the Committee include ‘Feedback from Cabinet’ as a standing item (verbal) on their agendas going forward. Resolved that the action tracker be noted.	
AGC 26/18	**CORPORATE RISK REGISTER** The Committee considered a report detailing the Tees Valley Combined Authority’s current Corporate Risk Register 2018/19. The Committee made the following comments: • Columns for risk ownership and target date be added; • The justification for scores should be made apparent, highlighting reasons for increases and decreases in the covering report; • Initials of RAG colours to be added to scoring column, for clarity; • Short information reports on corporate risk, the procedures for declarations of interest, whistleblowing and the recent visions and values work be brought to future meetings; • Risk definition to be strengthened and improved to be more specific; • A governance column be added to the risk management strategy and the financial column be renamed; • Further work needs to be carried out on the Committee’s terms of reference. Resolved that: i. The risk register be noted;	

	ii. The Committee receive a report at its next meeting from the head of Finance and Resources on proposals regarding arrangements for assurance on corporate risks.	
AGC 27/18	**INTERNAL AUDIT PROGRESS REPORT** The Committee was given an update on progress made against the Audit Plan 2018/19. The Committee made the following comments: • The number of days work completed annually by the internal audit team was discussed; • The frequency of each audit should be added to the table • Need to ensure reference numbers stay with each risk for tracking purposes. It was noted that the payroll system was now scheduled for roll-out in April 2019. Resolved that the report be noted.	
AGC 28/18	**EXTERNAL AUDIT PROGRESS** The Committee considered the External Audit Progress report. Resolved that the report be noted.	
AGC 29/18	**TREASURY MANAGEMENT STRATEGY MID-TERM REVIEW** The Committee was given an update on the strategy. It was noted that there will be three reports going forward instead of one. Resolved that the report be noted.	
AGC 30/18	**FORWARD PLAN** The attendance of Arling Close at a future meeting would be looked at. The Committee discussed having an additional meeting in February. Combined Authority staff would look at the possibility of this.	
AGC 31/18	**DATE OF NEXT MEETING** 28th February 2019, 10.00am	

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Minutes

Audit and Governance Committee
Cavendish House, Stockton-on-Tees
17th January 2019 – 10:00am

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

Attendees

Members
Councillor Nicky Walker – Chair (Middlesbrough Borough Council)
Councillor Barry Woodhouse – Vice Chair (Stockton-On-Tees Borough Council)
Councillor Bob Norton (Redcar & Cleveland Borough Council)
Councillor Charles Johnson (Darlington Borough Council)
Jonny Munby (Independent member)
Christopher White (Independent member)

Apologies for Absence
Councillor Ann Marshall (Hartlepool Borough Council)
Paul Bury (Independent member)

Officers
Julie Gilhespie (Chief Executive, TVCA)
Linda Edworthy (Strategy Director, TVCA)
Martin Waters (Head of Finance, Resources & Housing, TVCA)
Andrew Nixon (Monitoring Officer, TVCA)
Laura Metcalfe (Business Plan Officer, TVCA)

AGC 1/19	**RESOLUTION TO EXCLUDE THE PRESS AND PUBLIC**
	The Chair proposed, and the Committee agreed, to pass a resolution to exclude the press and public under paragraph 3 of part 1of schedule 12a of the Local Government Act 1972, in order to allow the Committee to consider matters of a commercially confidential nature. The proposition was seconded by the Vice Chair.
AGC 2/19	**APOLOGIES FOR ABSENCE**
	As note above.
AGC 3/19	**DECLARATIONS OF INTEREST**
	None.
AGC 4/19	**DURHAM TEES VALLEY AIRPORT**
	The Committee received a presentation on the proposed acquisition of the airport from the Chief Executive, Strategy Director and Head of Finance, Resources and Housing of the Combined Authority. Members then had the opportunity to ask questions of Officers. The Committee were advised that a special Cabinet would be held on 24th January 2019 to formally consider the acquisition and that it was the intention to publically publish the proposals relating to the acquisition alongside a business plan. MEMBERS RESOLVED that: i. Following the opportunity to challenge and question Officers and based on the presentation received, the Committee are comfortable that the Combined Authority is undertaking sound governance, effective internal control and financial management in relation to this matter.
AGC 5/19	**DATE OF NEXT MEETING**
	Thursday 28th February 2019 at 10:00am.

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	Any Other Business	Committee be provided with briefing on TVCA Whistle-blowing procedure	TVCA	**February 28th 2019**	*To be supplied to committee ahead of February 28th 2019 meeting*
29th November	Any Other Business	Committee be provided with briefing on TVCA Declaration of Interest procedure	TVCA	**February 28th 2019**	*To be supplied to committee ahead of February 28th 2019 meeting*
29th November	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	Internal Audit Report	A series of amendments to report be made, as detailed in minute AGC 26/18	SBC	**February 28th 2019**	

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AGENDA ITEM 6

REPORT TO THE TEES VALLEY COMBINED AUTHORITY AUDIT & GOVERNANCE COMMITTEE

28TH FEBRUARY 2019

REPORT OF INTERNAL AUDIT SERVICE

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: 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.

2. This is managed through a Service Level Agreement which states SBC will provide an internal audit service to the combined authority at a cost which enables 20 audit days to be provided which forms part of a wider audit plan of 1,260 days.

3. It is a requirement of the Public Sector Internal Audit Standards and the Accounts and Audit Regulations 2015 that coverage should be sufficient to provide an opinion on the entire control environment.

4. To facilitate being able to provide sufficient coverage within the number of days provided for, assurance work on behalf of TVCA is delivered alongside wider assurance work for SBC & DBC which is determined by an audit risk assessment. Specific samples are tested for the combined authority. The time agreed for in the SLA equates to the additional time spent looking at these specific samples within the wider audit plan.

5. In addition to providing assurance through the wider audit plan risks specific to the combined authority are considered separately and a proportion of the 20 days is allocated to specific TVCA risks with the focus in this year's plan on the assurance framework plus an additional 15 days reviewing the management of the concessionary travel scheme.

6. Details of how each audit provides assurance against the combined authority's strategic risk register are detailed within the attached report.

7. A number of key support functions to the combined authority are delivered via SLAs by Xentrall Shared Services a public public partnership between Stockton Borough Council and Darlington Borough Council.

Current Position

8. 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.

9. 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 completed. The plan is currently on schedule to be achieved, the work around the assurance framework was previously considered as amber with some difficulties being experienced in providing evidence to support the audit, this information has now been received and the audit is progressing.

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

Name of Contact Officer: **Andrew Barber, Audit & Risk Manager**
Telephone No: **01642 526176**
Email Address: **a.barber@stockton.gov.uk**

INTERNAL AUDIT

AUDIT COMMITTEE UPDATE REPORT

2018/19

1 AUDIT PROGRESS

1.1 The tables below show the summary position in respect of the audits delivered for the combined authority:

Status	No	%		Progress	No	%
Not Started	2	8		Red	0	0
On-Going	15	60		Amber	0	0
Complete	8	32		Green	25	100
	25	100			25	100

Opinion	Definition	No.	%
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.	7	88
Substantial Assurance	Overall there is a sound system of internal controls that are operating effectively. The system should achieve its objectives but there are areas where internal controls need to be improved.	0	0
Moderate Assurance	A reasonably sound system of internal controls is being applied, however, there are weaknesses which may put some of the system objectives at risk.	0	0
Limited Assurance	There is either a limited system of internal controls being applied, or there are significant weaknesses in the controls in place, which are posing a substantial risk to the achievement of system objectives.	0	0
No Assurance	The system of internal controls in place is failing and system objectives are not being met. Urgent management attention is required.	0	0
N/A	This classification covers audit work within a small part of a system. Providing an opinion on this work would misrepresent the system as a whole.	1	12
	Total	**8**	

Priority	Definition	No.	%
Critical	Actions that must be taken immediately to manage significant risks that are likely to prevent the Authority achieving one or more of its corporate objectives.	0	0
High	Actions that should be taken as a matter of priority due to the issues identified posing a substantial risk to the achievement of service/system objectives.	0	0
Medium	Required actions to reduce the risk of systems failing to achieve their objectives.	0	0
Low	Beneficial to the improvement of internal controls, which will support the achievement of objectives.	0	0
	Total	**0**	

1.2 Shown below is a list of all the audit engagements undertaken during the year together with an update on progress and the results of completed assignments.

2018/19 Audit Plan Current Position as at 01 February 2019

ID	Dept	Name	Status	Type	RAG	F	Risk	Expec'd Start	Expec'd End	Est. Hrs	Actual Hrs	Assurance	L	M	H	C
2660	Corporate	Officer Payments - Mileage	Complete	P	Green	48	3.1	05/03/2018	29/03/2019	4	4	Full Assurance	0	0	0	0
2651	Corporate	Anti-Fraud Management	Complete	C	Green	12	15.2	01/04/2018	31/03/2019	4	4	N/A	0	0	0	0
2674	Xentrall	Payroll & Absence Recording	On-Going	C	Green	12	6.7	01/04/2018	30/03/2019	8	6		0	0	0	0
2617	Xentrall	Creditors	On-Going	C	Green	12	7.0	02/04/2018	31/03/2019	8	5		0	0	0	0
2634	Xentrall	Debtors	On-Going	C	Green	12	6.2	02/04/2018	29/03/2019	6	4		0	0	0	0
2665	Finance	VAT	On-Going	C	Green	12	4.8	02/04/2018	29/03/2019	5	3		0	0	0	0
2672	Xentrall	Firewalls	Complete	P	Green	48	0.4	04/06/2018	19/07/2018	3	3	Full Assurance	0	0	0	0
2663	Xentrall	Pension Payments/Early Retirement	Complete	P	Green	24	9.0	01/07/2018	31/08/2018	4	4	Full Assurance	0	0	0	0
2623	Xentrall	Change Control	Complete	P	Green	48	2.4	02/07/2018	24/08/2018	3	3	Full Assurance	0	0	0	0
2683	Investment Fund	Investment Plan	On-Going	P	Green	12	15	16/07/2018	21/12/2018	60	40		0	0	0	0
2633	Xentrall	Remote Access	Complete	P	Green	48	0.6	06/08/2018	23/11/2018	2	2	Full Assurance	0	0	0	0
2657	Xentrall	Virtualisation	On-Going	C	Green	12	1.0	06/08/2018	30/11/2018	3	2		0	0	0	0
2606	Corporate	Absence Management	On-Going	C	Green	12	3.6	01/10/2018	31/12/2018	6	2		0	0	0	0
2605	Finance	Concessionary Travel Scheme	On-Going	P	Green	24	4.2	22/10/2018	25/02/2019	100	63		0	0	0	0

2611	Xentrall	Cloud Computing	Not Started	P	Green	48	4.0	05/11/2018	22/02/2019	3	0		0	0	0	0
2645	Xentrall	Hardware Controls	On-Going	P	Green	48	0.3	13/11/2018	31/01/2019	3	1		0	0	0	0
2628	Xentrall	ICT Project Management	Complete	P	Green	48	1.6	01/12/2018	31/12/2018	3	3	Full Assurance	0	0	0	0
2667	Corporate	Recruitment Services	On-Going	C	Green	12	5.4	01/12/2018	28/12/2018	5	2		0	0	0	0
2664	Finance	Treasury Management	Complete	P	Green	12	3.2	05/12/2018	25/01/2019	5	5	Full Assurance	0	0	0	0
2661	Xentrall	Network Management	On-Going	C	Green	12	3.4	01/01/2019	31/03/2019	3	2		0	0	0	0
2613	Corporate	Business Continuity & Emergency Planning	On-Going	P	Green	12	15.0	01/01/2019	31/01/2019	3	1		0	0	0	0
2652	Xentrall	Bank Reconciliation	Not Started	P	Green	12	17.6	01/02/2019	31/03/2019	4	0		0	0	0	0
2637	Corporate	Information Management	On-Going	C	Green	12	16.0	04/02/2019	30/03/2019	4	2		0	0	0	0
2669	Corporate	Performance Management Framework	On-Going	C	Green	12	15.0	04/02/2019	29/03/2019	5	1		0	0	0	0
2602	Finance	Financial Management	On-Going	C	Green	12	15.4	01/03/2019	31/03/2019	5	2		0	0	0	0
										259	**164**					
									Days	35	22					

1.3 Audit Links to the Strategic Risk Register

		Current assessment				
Ref	**Risk description**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Current Controls**	**Audits Where Controls Will Be Tested**
C01	Impact of Brexit on EU funding, including financial uncertainty and economic instability that affects national policy in relation to devolution and impact on ability to progress TVCA devolution strategy	3	3	9	• On going engagement with Leaders & Mayor, Chief Officers and Government departments • Continuation of focus on TVCA delivery of objectives and SEP • Secured ESIF guarantee from Government • Engagement with Government on future funding plans post Brexit	Financial management Business Continuity Planning
C02	Failure to operate within TVCA constitution	4	1	4	• 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	Features across all audits
C03	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation	4	3	12	• STDC established as legal entity 1st Aug 17 • Official launch 23rd August • Board meeting regularly • Continued dialogue with Government • £123m funding secured in Budget	
C04	Failure to deliver commitments entered into in the devolution deal (See C07 for delivery of projects which were part of devo deal)	3	3	9	• Implementation Plan agreed with Government • 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	Performance Management Framework

C05	Failure to secure sufficient additional resources to fund proposed activity	3	3	9	• Robust Medium Term Financial Plan, Treasury Management Strategy and Investment Plan agreed by TVCA Board • Submission of high calibre bids for external funding • Identifying opportunities for efficiency and greater impact • Ongoing review of EZ income potential • Ongoing review of commercial potential of individual projects and TVCA borrowing potential/limits • Investment prioritisation exercise undertaken	Financial Management Individual Grant Audits
C06	Failure to manage funding in order to deliver maximum value for money	2	2	4	• 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	Investment Plan Audit
C07	Failure to deliver the existing pipeline of funding commitments and achieve targeted spend	3	3	9	• 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	Investment Plan Audit

C08	Failure to secure agreement on the future investment priorities	3	3	9	• TVCA Board has overall responsibility developing & delivery of SEP, investment decisions and allocation of resources. • Proposals developed at early stage with Leaders & Mayor, LEP members, chief officers, partners and Government departments • Agreement to Investment Plan • Investment report on every 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.	Performance Management Framework Investment Plan Audit Financial Management
C09	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed	3	3	9	• Head of Communication & Marketing appointed • Communications Plan in place	
C10	Failure to provide sufficient capacity to deliver TVCA functions	3	3	9	• Oversight by Senior Management Team • Reviews being implemented	Absence Management Recruitment
C11	Failure to pass the first Gateway Review	5	2	10	• Bi-monthly meeting with Government officials and on-going dialogue • Assurance framework • Internal Audit • Devolution deal proposals • Annual conversations with government	Investment Plan Audit
C12	Failure to maximise influence at regional/national level	2	2	4	• LEP Network representation • Mayoral Role • Membership of Transport for the North • Membership of NP11	

C13	Failure to build and maintain relationships with key partners	3	3	9	• 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	Performance Management Framework
C14	Failure to detect fraud	5	2	10	• Internal audit • External audit • Internal expenditure approvals process • Assurance Framework for Investment	Counter Fraud Management Audit Reviews in General
C15	Political uncertainty	5	2	10	• Engagement with local MPs • Engagement with local authorities	
C16	Senior Officers leave the organisation	3	3	9	• Interim MD appointed • Regular SLT meetings • Regular management one to ones	Business Continuity Planning
C17	Failure to agree a Local Industrial Strategy with Government	4	2	8	• 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	

1.4 Progress against the Quality, Assurance & Improvement Programme

Risk	Objective	Control	Measure/Action	Responsibility	Current Position
Coverage is inadequate to enable an opinion on the	Ensure adequate audit coverage to enable an opinion on the entire	Audit portfolio covering all areas of council activity	Portfolio reviewed including head of service by 31 December	Audit & Risk Manager	Full review complete by 31 December 2017

entire control environment to be given.	control environment to be given	Audit Committee agree plan and charter based on risk	An audit plan and charter for a one year period agreed by 31 March.	Audit & Risk Manager	Audit Plan Agreed February 2018.
		Unqualified Annual Audit Opinion	Annual report produced by 30 June giving an independent audit opinion supported by sufficient, reliable, relevant and useful information.	Audit & Risk Manager	Annual report presented May 2018, opinion had no qualifications.
		Regular reporting to Audit Committee	Take an update report to each Audit Committee meeting	Audit & Risk Manager	Reports presented in March 2018
		Sufficient Audit Coverage	Percentage of audit portfolio covered in year – Target 45%	Audit & Risk Manager	86/150 = 57%
	To lead on the management of fraud risk within the authority	Maintain the Anti-fraud and corruption strategy	Reviewed and published by 30 June	Audit & Risk Manager	Published March 2018
		Review of matches identified by the National Fraud Initiative	High Priority matches reviewed within 3 months. Remainder within 9 months.	Audit & Risk Manager	

	Understand the ethical framework of the organisation and contribute to the management of the framework	Auditors Conduct themselves appropriately	Auditors signed up to the Audit Code of Conduct – Target 100%	Audit & Risk Manager	100%
Audit work does not add value/improve processes for stakeholders.	The scope of audit work provides value to stakeholders	Clients satisfied with outcome	Overall Satisfaction rating – Target 90%	Audit & Risk Manager	100%
		Recommendations are implemented	3*/4* implemented by original due date – Target 90%	Audit & Risk Manager	
		Cost of assurance is appropriate	Cost of assurance audit completed within 15% of budgeted time – Target 90%	Audit & Risk Manager	
		Staff are suitably trained/qualified	Staff that have completed a minimum of 20 Hrs CPD – Target 100%	All	All recorded minimum of 20 Hrs during 2017/2018
	Maintain a high standard of communication	Reports are issued in a timely manner	Time to issue draft following completion of fieldwork – Target 14 Days	Audit & Risk Manager	

			Time to issue final following response by client – Target 3 days		
		The final report is accurate	Number of Final Reports re-issued – Target : < 5	Audit & Risk Manager	0 Reports Re-issued
Management of the audit process is ineffective.	Compliance with our agreed standards is maintained	Peer Review undertaken annually to assess compliance with PSIAS	Assessed as complying with the standards by a group of peers	Audit & Risk Manager	Compliant – Assurance provided by TVAAS
		Annual Training Day	Training day to be delivered by 31 December	Audit & Risk Manager	February 2018
		The SBC appraisals process is used to manage staff performance.	Appraisals to be conducted by 30 July each year and a review at least every 6 months.	Audit & Risk Manager	Appraisals all complete.
		Management team meetings	Minimum every 2 months	Audit & Risk Manager	Last Meeting: 4 February 2019
		Audit team meetings	Minimum every 2 months	Audit & Risk Manager	Last Meeting: 4 February 2019
		Audit manual is maintained	Annual review by 31 March	Audit & Risk Manager	On-going due to be revised processes as a result of system upgrade.

Big plans, bright future

Internal Audit Report

ICT Project Management

Executive Summary

The audit work undertaken covered the controls, procedures and processes in place for the management and control of ICT projects involving Xentrall Shared Services ICT.

The scope of the audit work was as follows:
- Ascertain whether appropriate formal documented ICT project management standards/policies have been established.
- Determine whether adequate strategic level project controls are in place.
- Consider whether the viability of individual projects is assessed.
- Ascertain whether projects include an initiation stage where the management resources for the project are assigned, the scope of the project is defined and a project plan is produced.
- Determine whether controls are in place for the management and monitoring of project progress.
- Consider whether solutions are tested at suitable stages in the project cycle.
- Confirm whether appropriate project post implementation review processes are in place.

Summary of Conclusions

The points identified during audit testing can be summarised as follows:
- Formal documented ICT project management standards/policies, based on PRINCE2 project management methodology, have been established.
- Adequate strategic and operational level project controls are considered to be in place.
- The viability of individual projects is assessed by the customer and/or Xentrall ICT as appropriate.
- Either a PID (Project Initiation Document) or internal project mandate is produced for every project.
- Project plans for individual projects are produced and feed into the overall plan for all ICT project work involving Xentrall ICT.
- The controls in place for the management and monitoring of project progress were considered to be good.
- Storage arrangements for project documentation were considered to be satisfactory.
- Testing arrangements are dependent on the specific project requirements and the Xentrall ICT Change Approval Board has a role in ensuring adequate testing is specified.
- The completion of a project closure template document for all ICT projects provides a reasonable mechanism to review and document significant issues/points noted during the project process for individual ICT projects. Sample testing confirmed this document was being completed.

Audit Opinion:

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

Recommendations

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

No Recommendations Made

Remote Access

Executive Summary

The audit work undertaken covered aspects of remote access to the DBC and SBC/TVCA networks. This remote access is generally controlled and administered by the Infrastructure team in Xentrall ICT.

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

The scope of the audit work was as follows:

- Ascertain how corporate methods of remote access to the networks are facilitated and ascertain whether such access is adequately controlled and secured.
- Ascertain whether there is any access to the networks by modem and ascertain whether such access is appropriately controlled and secured.
- Ascertain whether there is any wireless access to the networks and consider whether such access is appropriately controlled and secured.
- Ascertain whether mobile devices can connect to the networks and whether the connection of such devices is appropriately controlled and secured.

Summary of Conclusions

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

- Remote access provided via the Check Point Endpoint solution was considered to be adequately controlled and secured.
- Remote access provided via the Juniper solution was considered to be adequately controlled and secured.
- Wireless access to the network was considered to be appropriately controlled and secured.
- No modem access to the corporate networks was identified.
- The connection of mobile devices to appropriate services has migrated from an onsite remote access solution to a cloud service. Detailed testing of the remote access solution was therefore not undertaken.

Audit Opinion:

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

Recommendations

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

No Recommendations Made

Treasury Management
Executive Summary

Background & Scope

Treasury Management is defined by the Chartered Institute for Public Finance and Accountancy (CIPFA) as the "management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Treasury Management Team develops and maintains robust systems for the management of the Council's cashflow, its banking, money market and capital transactions and the effective management of risks associated with those activities in accordance with the CIPFA Treasury Management Code of Practice, December 2017 being the latest version.

The standard programme of audit testing for Treasury Management covers seven areas and is classed as a 'continuous audit'. One element will be covered in 2018-19 and other areas covered in future years.

The testing for 2018-19 covers the following areas

- Policy and Procedures.

The previous audit in 2017-18 had no recommendations as full assurance was given.

Executive Summary.

A Treasury Management audit has recently been completed. Testing was undertaken around the accuracy of information held within the Treasury Manual and that accurate policies and procedures are in place and up to date.

Testing showed that information held is mainly up to date and accurate, however an annual review of the Treasury Manual is required as no review has been carried out since 23rd August 2017 and elements were found to be out of date.

Summary of Conclusions

The points identified during audit testing can be summarised as follows:
- Tees Valley Combined Authority have adopted the CIPFA Code of Practice for Treasury Management revised 2017.
- The Service has relevant policies and procedures in place which are adhered to in practice.
- The Stockton on Tees Borough Council Treasury Management Team are responsible for providing the information in corporate documents with authorisation being provided by the TVCA Director of Finance.
- The Tees Valley Investment Plan 2019-29 is available to view on the Internet.

Audit Opinion:

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

Recommendations

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

No Recommendations Made

Audit progress report

Tees Valley Combined Authority (and Group)

February 2019

CONTENTS

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Governance Committee (the Committee) with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Cameron Waddell has replaced Mark Kirkham as the Engagement Partner for the Authority's audit (including Group audit), starting with the 2018/19 audit. Mark has rotated to other audits in the local area. Cameron is our Durham Office Managing Partner, and is an experienced auditor of Combined Authorities. Together with Mark and Gareth Roberts (senior manager for your audit) we met with the Head of Finance and key members of the finance team on 8 February. Due to the Chief Executive's other commitments she was unable to attend the meeting. However, another meeting is planned for 4 March 2019.

Since the Committee last met we have:

- held internal planning meetings as part of our planning process for the 2018/19 audit;
- had update meetings with finance in respect of planning for the 2018/19 interim and final audit visits;
- undertaken planning work to refresh our documentation in respect of the Authority's systems (including undertaking walkthrough testing);
- refreshing our understanding of the processes in place at the Authority that inform the preparation of the financial statements;
- undertaken our risk assessment as part of planning for our 2018/19 VFM conclusion; and
- developed our joint liaison protocol with Internal Audit.

Members will be aware that in 2017/18 TVCA published single entity financial statements alongside TVCA Group statements (incorporating TVCA and South Tees Development Corporation, as a subsidiary of TVCA). We have held discussions with the Chief Executive and had several meetings and telephone discussions with the Head of Finance and other members of the finance team over the past few weeks about the Authority's plans and preparedness for the preparation of the TVCA Group statements for 2018/19, which are expected to have more components at 31 March 2019, in light of decisions taken by Cabinet around the Investment Plan. The consequence of adding further components into the TVCA Group structure for 2018/19 (including group structures being created at the Authority's own subsidiaries leading to other Groups within the TVCA Group) increases complexity, especially as some of the components will not be reporting under the same accounting framework as the TVCA Group and so conversion of the accounting basis and possibly valuation basis for assets and liabilities will be required as part of the consolidation process. This is likely to lead to a considerable amount of work for the finance team, especially in light of the need for draft TVCA Group statements to be prepared and published by 31 May alongside the TVCA single entity statements. This clearly also has an impact on our own audit of the financial statements, and the fee, as it will increase the scope of our 2018/19 group audit. As a result of our meetings, the finance team are working through the finer detail of the implications. Given the need to clarify who will prepare the financial statements for each component and by when, and who will audit them, we have agreed to defer our Audit Strategy Memorandum for 2018/19. We expect matters to become clearer over the coming weeks and expect to receive a detailed plan from management setting out the details of who will be preparing statement for each component and by when, who will audit them and by when, and who will undertake the Group consolidation process, including any conversions and revaluations under the differing accounting frameworks, as this would need to be done by 31 May 2019. Once received we will then be in a position to draft our 2018/19 Audit Strategy Memorandum, and issue this for agreement with the Audit and Governance Committee.

Other than as stated above, our work is on track, and there are no other significant matters arising from our work that we are required to report to you at this stage.

Final accounts workshop

As in previous years, we are running an annual final accounts workshop for local authorities (including combined authorities), designed to help ensure the final accounts process goes as smoothly as possible. The most local workshop for the Authority was held in January 2019 and a finance officer from the Authority attended the event, which was free of charge.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points
National Audit Office (NAO)		
1.	**Local auditor reporting in England 2018**	Main findings reported by auditors in 2017/18.
2.	**Local authorities - governance**	Consideration of VfM and financial sustainability in local authorities.
3.	**NHS financial sustainability**	Current picture not sustainable and yet to be seen whether spending plans will deliver the change required.
4.	**A review of the role and costs of clinical commissioning groups**	Organisational stability needed.
Public Sector Audit Appointments Ltd (PSAA)		
5.	**Local quality audit forum**	December 18 forum slides available online.
6.	**Oversight of audit quality, quarterly compliance reports**	No significant issues.
Chartered Institute of Public Finance and Accountancy (CIPFA		
7.	**Scrutinising Public Accounts: A Guide to Government Accounts**	Online publication resource available.
8.	**CIPFA Fraud and Corruption Tracker 2017/18**	Annual report. Increase in fraud detected or prevented.
Mazars		
9.	**Summary of NHS long-term plan**	In this briefing on the new NHS long-term plan, Mazars have highlighted the implications of the plan for local government and the key questions that local authorities should be considering.

2. NATIONAL PUBLICATIONS

1. Local auditor reporting in England 2018, NAO, January 2019

Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors.

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors. The report highlights a number of points as summarised below.

- Auditors gave unqualified opinions on financial statements in 2015-16, 2016-17 and 2017-18. This provides assurance that local public bodies are complying with financial reporting requirements. As at 17 December 2018, auditors had yet to issue 16 opinions on financial statements, so this does not yet represent the full picture for 2017-18.
- Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. Again, as at 17 December 2018, auditors had yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18. This level of qualifications reinforces the need to ensure that local auditors' reporting informs as much as possible relevant departments' understanding of the issues facing local public bodies.
- Auditors qualified their conclusions at 40 (8%) of local government bodies. The proportion of qualifications was highest for single-tier local authorities and county councils where auditors qualified 27 (18%) of their value for money arrangements conclusions. The qualifications were for weaknesses in governance arrangements, often also highlighted by inspectorates' ratings of services as inadequate.
- More local NHS bodies received qualified conclusions on arrangements to secure VfM than local government bodies. In 2017-18, auditors qualified 168 (38%) of local NHS bodies' conclusions; up from 130 (29%) in 2015-16, mainly because of not meeting financial targets such as keeping spending within annual limits set by Parliament; not delivering savings to balance the body's budget; or because of inadequate plans to achieve financial balance. The increase between 2015-16 and 2017-18 is particularly steep at clinical commissioning groups, with qualifications for poor financial performance increasing from 21 (10%) in 2015-16 to 67 (32%) in 2017-18.
- Local auditors are using their additional reporting powers, but infrequently. Since April 2015, local auditors have issued only three Public Interest Reports, and made only seven Statutory Recommendations. These Public Interest Reports have drawn attention to issues such as unlawful use of parking income, governance failings in the oversight of a council-owned company, management of major projects or members' conduct. Auditors have made Statutory Recommendations in relation to failing to deliver planned cost savings, poor processes for producing the annual financial statements and failure to address weaknesses highlighted by independent reviews.
- A significant proportion of local bodies may not fully understand the main purpose of the auditor's conclusion on arrangements to secure value for money and the importance of addressing those issues. 102 local public bodies were contacted where auditors had reported concerns about their arrangements to ensure value for money:

  - half of the bodies (51) said that the auditor's report identified issues that they already knew about;

  - fifty-seven (95%) of those responding said they had plans in place to address their weaknesses but only three were able to say that they had fully implemented their plans; and

  - twenty-six (25%) did not respond at all to the NAO's request.
- The extent to which central government departments responsible for the oversight of local bodies have formal arrangements in place to draw on the findings from local auditor reports varies. Processes in the relevant central government departments differ. The Department of Health & Social Care, NHS Improvement and NHS England have arrangements in place to monitor the in-year financial performance of local NHS bodies, and use information from local auditor reports to confirm their understanding of risks in the system. The Home Office and Ministry of Housing, Communities & Local Government consider the output from local auditors' reports to obtain a broad overview of the issues local auditors are raising, but there is a risk that these two departments may be unaware of all relevant local issues.

2. NATIONAL PUBLICATIONS

1. Local auditor reporting in England 2018, NAO, January 2019 (continued)

- Under the current local audit and performance framework, there is no direct consequence of receiving a non-standard report from the local auditor. Before 2010, a qualified value for money arrangements conclusion would have a direct impact on the scored assessments for all local public bodies published by the Audit Commission at that time. While departments may intervene in connection with the issues giving rise to a qualification, such as failure to meet expenditure limits, there are no formal processes in place, other than the local audit framework, that report publicly whether local bodies are addressing the weaknesses that local auditors are reporting.

A list of all local bodies that received a non-standard local auditor report for 2017-18 was published alongside the report.

https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/

2. Local authorities - governance, NAO, January 2019

The NAO has recently published a report on local authority governance, which examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

The report finds that local authorities have faced significant challenges since 2010. For example, they have seen a real-terms reduction in spending power of 29% and a 15% increase in the number of children in care. These pressures raise the risk of authorities' failing to remain financially sustainable and deliver services.

The way authorities have responded to these challenges have tested local governance arrangements. Many authorities have pursued large-scale transformations or commercial investments that carry a risk of failure or under-performance and add greater complexity to governance arrangements. Spending by authorities on resources to support governance also fell by 34% in real terms between 2010-11 and 2017-18, potentially increasing the risks faced by local bodies.

In 2017-18, auditors issued qualified VFM arrangements conclusions for around one in five single tier and county councils. A survey, carried out by the NAO, of external auditors indicates that several authorities did not take appropriate steps to address these issues.

Some external auditors have raised concerns about the effectiveness of the internal checks and balances at the local authorities they audit, such as risk management, internal audit and scrutiny and overview. For example, 27% of auditors surveyed by the NAO do not agree that their authority's audit committees provided sufficient assurance about the authorities' governance arrangements. Auditors felt that many authorities are struggling in more than one aspect of governance, demonstrating the stress on governance at a local level.

Some authorities have begun to question the contribution of external audit to providing assurance on their governance arrangements. 51% of chief finance officers from single tier and county councils responding to our survey indicated that there are aspects of external audit they would like to change. This includes a greater focus on the value for money element of the audit (26%). External auditors recognise this demand within certain local authorities. However, their work must conform to the auditing standards they are assessed against and any additional activity may have implications for the fee needed for the audit.

The report also finds that MHCLG does not systematically collect data on governance, meaning it can't rigorously assess whether issues are isolated incidents or symptomatic of failings in aspects of the system. MHCLG recognises that it needs to be more active in leading co-ordinated change across the local governance system. The report recommends that MHCLG works with local authorities and other stakeholders to assess the implications of, and possible responses to, the various governance issues identified. It should examine ways of introducing greater transparency and openness to its formal and informal interventions in local authorities and should adopt a stronger leadership role in overseeing the network of organisations managing key aspects of the governance framework.

https://www.nao.org.uk/report/local-authority-governance-2/

2. NATIONAL PUBLICATIONS

3. NHS financial sustainability, NAO, January 2019

This is the NAO's seventh report on the financial sustainability of the NHS. In its recent reports, in December 2015, November 2016 and January 2018, the NAO concluded that financial problems in the NHS were endemic and that extra in-year cash injections to trusts had been spent on coping with current pressures rather than the transformation required to put the health system on a sustainable footing. To address this, local partnerships of clinical commissioning groups (CCGs), NHS trusts and NHS foundation trusts (trusts) and local authorities were set up to develop long-term strategic plans and transform the way services are provided more quickly.

In June 2018, the Prime Minister announced a long-term funding settlement for the NHS, which will see NHS England's budget rise by an extra £20.5 billion by 2023-24. Between 2019-20 and 2023-24, this equates to an average annual real-terms increase of 3.4%. The government asked NHS England to produce a 10-year plan that aims to ensure that this additional funding is well spent. In return for this extra funding, the government has set the NHS five financial tests to show how the NHS will do its part to put the service onto a more sustainable footing.

This report covers 2017-18, so the NAO first concludes on financial sustainability for that year. The NAO considers that the growth in waiting lists and slippage in waiting times, and the existence of substantial deficits in some parts of the system, offset by surpluses elsewhere do not add up to a picture that can be described as sustainable. Recently, the long-term plan for the NHS has been published, and government has committed to longer-term stable growth in funding for NHS England.

In the NAO's view these developments are positive, and the planning approach seen so far looks prudent. The NAO further states that it will really be able to judge whether the funding package will be enough to achieve the NHS' ambitions when we know the level of settlement for other key areas of health spending that emerges from the Spending Review later in the year. This will help inform whether there is enough to deal with the embedded problems from the last few years and move the health system forward.

https://www.nao.org.uk/report/nhs-financial-sustainability/

4. A review of the role and costs of clinical commissioning groups, NAO, December 2018

Clinical commissioning groups (CCGs) are clinically-led statutory bodies that have a legal duty to plan and commission most of the hospital and community NHS services in the local areas for which they are responsible. CCGs are led by a Governing Body made up of GPs, other clinicians including a nurse and a secondary care consultant, and lay members. They were established as part of the Health and Social Care Act in 2012 and replaced primary care trusts on 1 April 2013. Since their formation, there have been eight formal mergers of CCGs, which have reduced their number from 211 to 195 as at April 2018. The smallest CCG (Corby) covers a population of 78,000, while the largest (Birmingham and Solihull) covers a population of 1.3 million.

Since commissioning was introduced into the NHS in the early 1990s, there have been frequent changes to the structure of commissioning organisations. This looks set to continue, with the role of CCGs evolving as the NHS pursues a more integrated system across commissioners and providers. Consequently, there are likely to be more CCG mergers and increased collaborative working between CCGs and their stakeholders, for example healthcare providers and local authorities

This review sets out:

- changes to the commissioning landscape before CCGs were established;
- the role, running costs and performance of CCGs; and
- the changing commissioning landscape and the future role of CCGs.

CCGs were created from the reorganisation in how healthcare services are commissioned in the NHS. They were designed to give more responsibility to clinicians to commission healthcare services for their communities and were given resources to do this. NHS England's assessment of CCGs' performance shows a mixed picture. Over half of CCGs were rated either 'outstanding' or 'good', but 42% (87 of 207) are rated either 'requires improvement' or 'inadequate', with 24 deemed to be failing, or at risk of failing. Many CCGs are struggling to operate within their planned expenditure limits despite remaining within their separate running cost allowance. Attracting and retaining high-quality leadership is an ongoing issue.

2. NATIONAL PUBLICATIONS

4. A review of the role and costs of clinical commissioning groups, NAO, December 2018 (continued)

There has been a phase of CCG restructuring with increased joint working and some CCGs merging. If current trends continue, this seems likely to result in fewer CCGs covering larger populations based around STP footprints. This larger scale is intended to help with planning, integrating services and consolidating CCGs' leadership capability. However, there is a risk that commissioning across a larger population will make it more difficult for CCGs to design local health services that are responsive to patients' needs, one of the original objectives of CCGs.

CCGs have the opportunity to take the lead in determining their new structures. NHS England is expected to set out its vision for NHS commissioning in its long-term plan for the NHS to be published in December 2018. NHS England has said it will step in where CCGs diverge from its vision of effective commissioning. However, it has not set out fully the criteria it will use to determine when to step in.

The NAO's previous work on the NHS reforms brought in under the Health and Social Care Act 2012 highlighted the significant upheaval caused by major organisational restructuring. It is therefore important that the current restructuring of CCGs creates stable and effective organisations that support the long-term aims of the NHS. Following almost three decades of change, NHS commissioning needs a prolonged period of organisational stability. This would allow organisations to focus on transforming and integrating health and care services rather than on reorganising themselves. It would be a huge waste of resources and opportunity if, in five years' time, NHS commissioning is going full circle and undergoing yet another cycle of restructuring.

https://www.nao.org.uk/report/a-review-of-the-role-and-costs-of-clinical-commissioning-groups/

5. Local Audit Quality Forum, Public Sector Audit Appointments, December 2018

The Local Audit Quality Forum (LAQF) is a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England. PSAA wants to develop a momentum and a passion for continuous improvement in audit arrangements throughout the entities and sectors for which PSAA has a mandate.

Slides of the Manchester December 2018 event are available on the PSAA website as per the link below.

The theme of the Manchester event was financial resilience and sustainability, a major challenge for all local authorities and police bodies in the current climate and a key strategic concern as bodies prepare 2019/20 budgets and update medium term plans. The event explored:

- the nature and scale of the sustainability challenges facing local bodies;
- the strategies and disciplines which can help to address them successfully; and
- the roles and responsibilities of Chief Finance Officers and Auditors in helping to maintain resilience and sustainability.

https://www.psaa.co.uk/local-audit-quality-forum3/local-audit-quality-forum/

6. Oversight of audit quality, quarterly compliance reports 2017/18, Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

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

2. NATIONAL PUBLICATIONS

7. Scrutinising Public Accounts: A Guide To Government Finances, CIPFA, November 2018

This guide provides an overview of the different processes for budgeting and performance reporting in central and local government, health bodies and includes key questions to ask when scrutinising government financial statements using examples based on UK public sector accounts.

This publication is only available online.

https://www.cipfa.org/policy-and-guidance/publications/s/scrutinising-public-accounts-a-guide-to-government-finances

8. CIPFA Fraud and Corruption Tracker 2017/18, CIPFA, October 2018

The CIPFA Fraud and Corruption Tracker (CFaCT) survey gives a national picture of fraud, bribery and corruption across UK local authorities and the actions being taken to prevent it. It aims to:

- help organisations understand where fraud losses could be occurring;
- provide a guide to the value of detected and prevented fraud loss;
- help senior leaders understand the value of anti-fraud activity; and
- assist operational staff to develop pro-active anti-fraud plans.

The 2017/18 report shows that fraud continues to pose a major financial threat to local authorities, with £302m detected or prevented by councils in 2017/18. While this was £34m less than last year's total, the report revealed an overall increase in the number of frauds detected or prevented – up to 80,000, from the 75,000 cases found in 2016/17. Among these cases there are reminders of some of the challenges being faced by local authorities, with the number of serious or organised crime cases doubling to 56, and a significant increase in the amount lost to business rates fraud, which jumped to £10.4m in 2017/18 from £4.3m in 2016/17.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/local-councils-detect-or-prevent-£302m-in-fraud-in-2017-18

9. Summary of NHS long-term plan, Mazars, January 2019

To support local planning, local health systems will receive five-year indicative financial allocations for 2019/20 to 2023/24 and be asked to produce local plans for implementing the commitments set out in the NHS Long Term Plan. But what does it mean for local government?

The Plan recognises that more focus is needed on community care, mental health and wellbeing, reducing health inequalities and preventative care. The implications for local authorities should become clearer with a green paper expected later this year. With NHS revenue funding to grow by an average of 3.4% in real terms a year over the next five years delivering a real term increase of £20.5 billion by 2023/24, this extra spending will need to deal with current pressures and unavoidable demographic change and other costs, as well as new priorities.

Relationships between the NHS and local government could be more challenging since the direct and significant financial relationship with the NHS through the Better Care Fund is facing an overhaul and the extent of structural overhaul facing the NHS, through the advancement of Integrated Care Systems, requires time and effort.

(continued over)

2. NATIONAL PUBLICATIONS

In this briefing, we cover:

- System Architecture and Planning
- Prevention and Inequalities
- Out of Hospital Care - Primary/Community Services
- Urgent/ Emergency Care
- Elective Care

Theme	Key features	Implications and questions for local government
System Architecture and Planning	Integrated Care Systems (ICS) will be everywhere by April 2021 with the "'triple integration' of primary and specialist care, physical and mental health services, and health with social care" at a place level with commissioners sharing decisions on planning with providers. Each ICS will have a single set of commissioning decisions at the system level. This will typically involve a single Clinical Commissioning Group (CCG) for each ICS area with CCGs to become leaner, more strategic organisations working with partners, population health, service redesign and delivery of the plan. ICS constitution will involve a partnership board consisting of commissioners, trusts, primary care networks, non-executive chair and an accountable Clinical Director for each Primary Care network. There will also be a new ICS accountability and performance framework to provide a consistent and comparable set of performance measures. It will include a new 'integration index' to measure how joined up the system is. This is interesting as it's the public voice.	Integrated Care Systems will have a key role in working with local authorities at the 'place' level and, through the ICS governance structure, commissioners will make shared decisions with providers on how to use resources, design services and improve population health. A review and revision of the Better Care Fund may have direct financial implications for local authorities, particularly those arrangements where some Better Care Fund streams are used as support funding for social care services. The NHS Plan does recognise social care in terms of pressures it may create on the NHS and the need to continue to support local measures to address rising demand and costs through pooled budgets, personal health and social care budgets and cites the example of the NHS overseeing a pooled budget with a joint commissioning team (Salford model), where the Council Chief Executive is the accountable officer. A Green Paper is expected to provide further clarity.
Prevention and Inequalities	From April 2019, Clinical Commissioning Groups (CCGs) will receive a health inequalities funding supplement, with the possibility of the commissioning of public health services, e.g. health visitors, school nurses, sexual health etc., to return to the NHS. A planned £30million investment in rough sleepers.	The onus to reduce health inequalities falls to local authorities with the NHS as support. How / will funding flow into local authorities via CCGs or will we need to wait until the next spending review? Investment in the health of rough sleepers is a short-term fix – the wrap around is for local authorities to work on housing, mental health, care and employment.

2. NATIONAL PUBLICATIONS

Theme	Key features	Implications and questions for local government
Out of Hospital Care - Primary/Community Services	There will be a greater proportionate level of investment in Primary care and Community Health Services: with ringfenced local funding equivalent to a £4.5billion increase by 2023/24. In return, the NHS Plan is expecting: Fully integrated community support with training and development of multidisciplinary teams in primary and community hubs, including community hospitals. Integrated teams of GPs, community services and social care. Urgent response and recovery support will be delivered by flexible teams working across primary care and local hospitals, including GPs, allied health professionals, district nurses, mental health nurses, therapists and reablement teams. More support for Care Homes to address hospital admissions and sub-optimal medication, with an Enhanced Care in Care Homes vanguard model is to be adopted that aims to improve the links between Care Homes and Primary Care through a consistent healthcare team and named practice support, pharmacist led medication reviews, emergency support, and access to records.	When care transfers into the community, there is an increasing need to manage the multiagency points of contact. Having integrated teams implies local authority care workers working alongside private sector GPs and NHS staff: how will referrals, care pathways and advice on alternative services, for example housing, be managed? This also raises the need for some joined up thinking over estates management and the infrastructure of public service assets – where should teams be based? Local authority supply management of care homes becomes more challenging: the resilience of local market is stretched with the cost of care not always making provision financially viable – will any additional funding merely bring back some stability falling short of ambitions for Enhanced Care? Technology becomes increasingly important including considerations for secure data sharing between organisations. Proposals to support advances in home wearables/monitoring technology to predict hospital admission, linked to smart home technology create new forms of the same challenge: who monitors the data and who is it shared with for the person's best interests? With an increase in social prescribing and personal health budgets, local authorities, including park authorities, can provide support through existing provision of leisure and community services. How can you create community engagement and healthier lifestyles?
Urgent/ Emergency Care	The goal is to achieve and maintain an average Delayed Transfers of Care figure of 4,000 or fewer delays. This aims to be achieved by placing therapy and social work teams at the beginning of the acute hospital pathway, with an agreed clinical care plan within 14 hours of admission that includes an expected date of discharge.	A direct and an indirect impact to local authorities for those residents in care or living in local authority housing. There becomes an increasing need for local authorities to dexterously call on partners across the local authority boundary, including the use of existing disabled facilities grant funding, to ensure people can return home safely. The Stoke-on-Trent based Revival Home from Hospital service is working at record levels and is saving the NHS almost £500,000 a year. The service helps people to get home from hospital as quickly as possible by making sure their homes meet their health needs.

MAZARS

2. NATIONAL PUBLICATIONS

Theme	Key features	Implications and questions for local government
Elective Care	An NHS Personalised Care model and expansion of Personal Health Budgets, for example bespoke wheelchairs and community-based packages of personal and domestic support, mental health services, learning disabilities, and those people receiving social care support. There is expected to trained social prescribing professionals connecting people to wider services.	Who is best placed to provide advice on connecting people to wider services? Who is well placed to deliver connected services and is there more space for framework contracts of approved providers for people to draw down from?

A summarised version of the Plan is available to download from our website:

https://www.mazars.co.uk/Home/Industries/Public-Services/Health/NHS-Long-Term-Plan-summary

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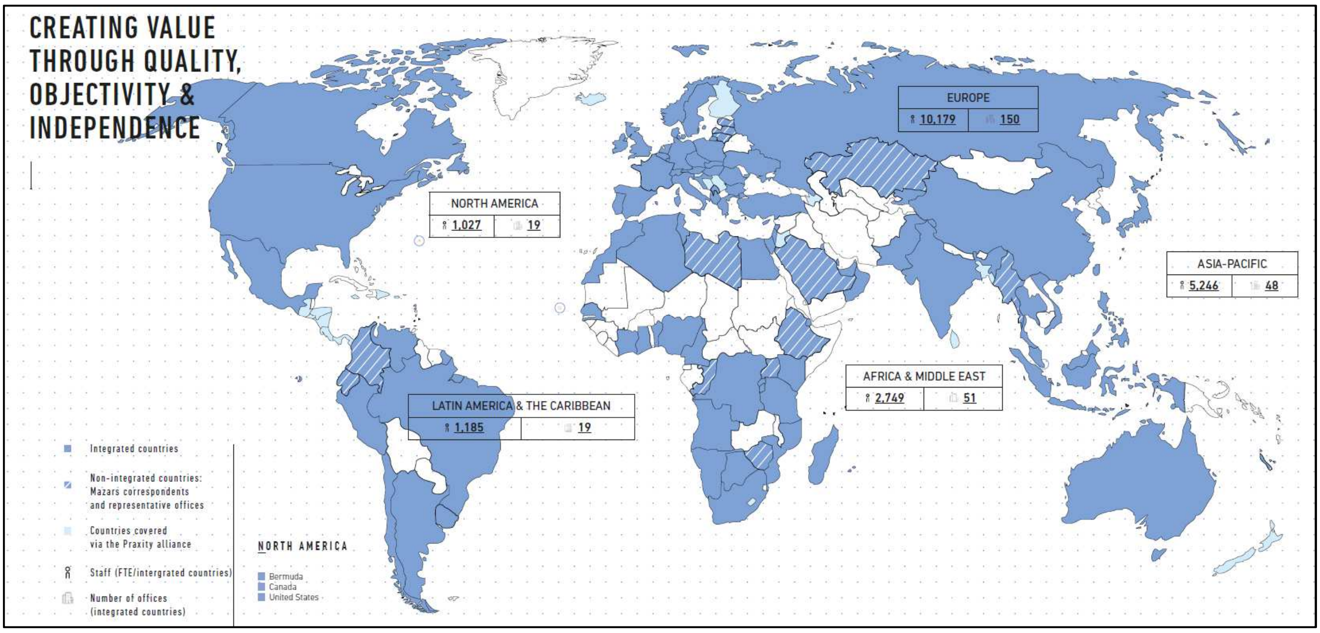
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



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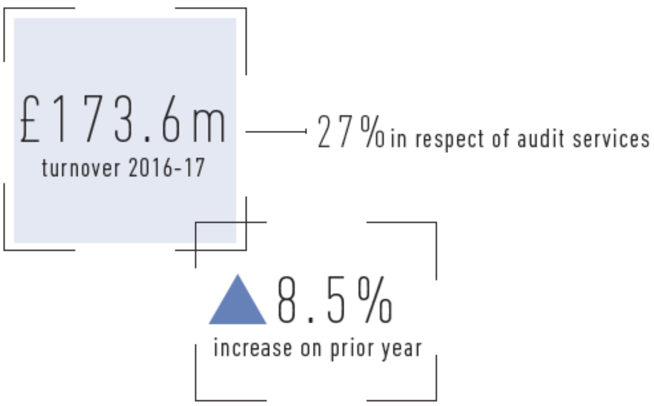

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TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 8

REPORT TO THE TEES VALLEY COMBINED AUTHORITY AUDIT AND GOVERNANCE COMMITTEE

28 FEBRUARY 2019

REPORT OF HEAD OF FINANCE AND RESOURCES

TREASURY MANAGEMENT STRATEGY 2019/20

SUMMARY

This report presents the Authority's Treasury Management, Capital and Investment Strategies for the financial year 2019/20. The Capital Strategy incorporates within it the Minimum Revenue Provision Policy.

RECOMMENDATIONS

It is recommended that the Combined Authority Audit and Governance Committee consider the Treasury Management, Investment and Capital Strategies for 2019/20 in advance of being presented to Cabinet for approval on 15 March 2019.

DETAIL

1. In December 2017 The Chartered Institute of Public Finance and Accountancy updated the Treasury Management Code of 2011. The Code was reviewed and updated following developments in the marketplace and the introduction of the Localism Act 2011 for English local authorities.

2. The code defines Treasury Management as the management of the organisations borrowing, investments and cash flows, banking, money market and its capital market transactions. The effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. This definition is intended to apply to all public service organisations in their use of capital and project financings, borrowings and all investments.

3. As a result of consultation in late 2017 the Ministry of Housing, Communities and Local Government updated the Statutory Guidance on Local Authority investments

4. The revised code and statutory guidance is to be implemented from 2019/20. To meet with the new requirements the following three strategies have been produced:-

   i. Treasury Management Strategy (Appendix 1) - the management of the Authority's cash flows, borrowing, investments, and the associated risks.

   ii. Capital Strategy (Appendix 2) - a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the functions of the Authority. Including an overview of how associated risk is managed and the implications for future financial sustainability.

iii. Investment Strategy (Appendix 3) – investments held by the Authority hat are not managed as part of normal treasury management processes.

5. The underpinning Treasury Management Practices adopted to implement the Treasury Management Strategies remain unchanged from those approved by Cabinet in March 2018.

FINANCIAL IMPLICATIONS.

6. None

LEGAL IMPLICATIONS

7. None

RISK ASSESSMENT

8. The Treasury Management Strategy is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

9. None.

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Appendix 1

TREASURY MANAGEMENT STRATEGY 2019/20

1. Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. 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 financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Tees Valley Combined Authority are supported by professional advisors Arlingclose Limited in order to ensure that up to date market advice and information on the most appropriate investment / borrowing options are obtained.

Through a service level agreement Stockton Borough Council (SBC) provides the Combined Authority with a treasury management service. The CIPFA code requires that staff with responsibility for treasury management receive adequate training to carry out this role. SBC assess the requirements for training as part of the staff appraisal process and they regularly attend courses and seminars provided by Arlingclose and CIPFA.

2. Economic Context

Economic Background

The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report.

The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

Credit Outlook

The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest Rate Forecast

Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Schedule 1.**

3. Borrowing Strategy

In the Autumn Statement 2016, the government announced that it would give Mayoral Combined Authorities powers to borrow for their new functions subject to agreeing a borrowing cap with HM Treasury. This will align the combined authorities' financial powers with their new responsibilities, and give them the ability to invest in important priorities such as economic development and regeneration.

In November 2017 the borrowing cap was agreed between the Authority and Treasury (set out in the table below) and the Tees Valley Combined Authority (Borrowing) Regulations 2018' Statutory Instrument was laid before and approved by a resolution of each House of Parliament at the end of 2017.

	2018-19	2019-20	2020-21
TVCA long-term external debt	£367,400,000	£571,100,000	£774,800,000

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

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

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

Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

Sources of Borrowing

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body

- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

Other Sources of Debt Finance

Capital finance may be raised by the following methods that are not borrowing, but may be classed other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

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

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003.

The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other.

The Prudential Indicators which the Authority will follow and the minimum revenue provision statement are set out in the capital strategy report (Appendix 2)

4. Investment Strategy

The Authority currently holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the Authority's investment balance has ranged between £82.5million and £137million. The new 10 year Combined Authority Investment Plan was approved in January 2019 setting out a forecasted expenditure profile over the period. The increased spending plans will reduce the previously held balances significantly and as such the invested funds will reduce to a minimal amount reserved for unforeseen circumstances during 2019/20.

The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, with other local authorities and money market funds. As a result of the anticipated increased expenditure in the coming year the Authority will continue with this approach, maximising interest returns through a managed cashflow process.

The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 10 years	n/a	n/a
AAA	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA+	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA	£7,500,000 4 years	£15,000,000 5 years	£15,000,000 10 years	£7,500,000 5 years	£7,500,000 10 years
AA-	£7,500,000 3 years	£15,000,000 4 years	£15,000,000 10 years	£7,500,000 4 years	£7,500,000 10 years
A+	£7,500,000 2 years	£15,000,000 3 years	£7,500,000 5 years	£7,500,000 3 years	£7,500,000 5 years
A	£7,500,000 13 months	£15,000,000 2 years	£7,500,000 5 years	£7,500,000 2 years	£7,500,000 5 years
A-	£7,500,000 6 months	£15,000,000 13 months	£7,500,000 5 years	£7,500,000 13 months	£7,500,000 5 years
None	n/a	n/a	£15,000,000 10 years	£5,000,000 5 years	£7,500,000 5 years
Pooled funds and real estate investment trusts	£15m per fund				

This table must be read in conjunction with the notes below

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

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

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

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

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £5,000,000 per company as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

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

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

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

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

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

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

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

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

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

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £961k on 31st March 2019. The maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

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

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

5. Treasury Management Indicators

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

Liquidity**:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£1m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. Based on the current level of investments held the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
One-year revenue impact of a 1% rise in interest rates	£241,912
One-year revenue impact of a 1% fall in interest rates	-£241,912

The impact of a change in interest rates is calculated on the investments will be replaced at current rates. A 1% rise in all interest rates would have a £242,000 benefit to the authority's revenue account.

Maturity structure of borrowing**:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

The upper limits have been set as wide as possible as this is necessary as the Authority currently has no debt portfolio and therefore setting the indicators more narrowly could be prohibitive. The limits will be reviewed and amended to be more meaningful if the authority takes out any borrowing.

Principal sums invested for periods longer than a year**:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£15m	£10m	£5m

6. Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

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

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance believes this to be the most

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 73 officer, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below and will be considered if circumstance significantly change.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Schedule 1 – Arlingclose Economic & Interest Rate Forecast December 2018

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.13**
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.90**	**0.95**	**1.10**	**1.30**	**1.40**	**1.40**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.27**
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.70**	**1.60**	**1.50**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.40**
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.50**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.33**
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.50**	**1.65**	**1.70**	**1.80**	**1.80**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**2.00**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.18**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.90**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.99**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

Appendix 2

CAPITAL STRATEGY 2019/20

1. Introduction

The capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of the Authority's Strategic Economic Plan along with an overview of how associated risk is managed and the implications for future financial sustainability.

2. Capital Expenditure and Financing

Capital expenditure is where the Authority spends money on assets, such as land, property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets, this is predominantly the nature of the Authority's capital expenditure.

In January 2019 a new investment plan was approved by the Combined Authority Cabinet which set out the investment priorities for the next 10 years. This plan included a mixture of both capital and revenue investments which will contribute to successful delivery of the Authority's Strategic Economic Plan.

As part of the devolution deal Government gave a 30 year commitment to the Authority of £15 million devolved grant funding annually. This long term commitment from Government enables the Authority to borrow funds to unlock growth in the earlier years when it is critical to developing our economy.

The capital programme will be looked at on a holistic approach and required borrowing will be made against the gap on the whole programme not individual projects. The assurrance process in place for all capital investments will ensure that each meets the requirements of the prudential code that they are prudent, affordable and sustainable.

In 2019/20, the Authority is planning capital expenditure of £133 million as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £'000

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	Forecast	**Budget**	**Budget**	**Budget**	**Budget**
Capital Expenditure	60,681	133,007	77,710	77,493	75,143

Governance: Business cases are submitted to the Authority by the lead applicant for all capital projects and they are fully appraised and approved in line with the Combined Authority Assurance Framework approved by the Ministry of Housing Communities and Local Government (MHCLG). The assurance framework sets out how projects will be monitored through delivery and beyond completion to measure the economic impact of the investment.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £'000

	2018/19	2019/20	2020/21	2021/22	2022/23
	Forecast	Budget	Budget	Budget	Budget
Capital Grant Reserve	25,503	11,118	0	0	0
Capital Grants	35,178	44,383	46,476	38,257	31,439
Borrowing Required	0	77,506	31,234	39,236	43,704
Total	**60,681**	**133,007**	**77,710**	**77,493**	**75,143**

Where possible the Authority will utilise short term internal borrowing to reduce the overall requirement for external borrowing within a given year. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The below table sets out the estimated split between internal and external borrowing across the period:

Table 3: Borrowing estimate in £'000

	2018/19	2019/20	2020/21	2021/22	2022/23
	Forecast	Budget	Budget	Budget	Budget
Internal Borrowing	0	28,186	(8,766)	(9,413)	(5,536)
External Borrowing	0	49,320	39,999	48,649	49,239
Total Borrowing	**0**	**77,506**	**31,234**	**77,493**	**75,143**

Debt is only a temporary source of finance and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Planned MRP is as follows:

Table 4: Replacement of debt finance in £'000

	2018/19	2019/20	2020/21	2021/22	2022/23
	Forecast	Budget	Budget	Budget	Budget
Revenue Streams	0	0	1,500	2,800	4,500

Ministry of Housing Communities and Local Government (MHCLG) Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The recommended statement is attached at schedule 1 for approval.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP, loan fund repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £'000

	2018/19	2019/20	2020/21	2021/22	2022/23
CFR	0	77,506	106,409	142,267	181,194

3. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. Using internal borrowing the revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Borrowing strategy: The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and therefore when borrowing the Authority will seek to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%).

Projected levels of the Authority's total outstanding external debt are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £'000

	2018/19	2019/20	2020/21	2021/22	2022/23
	Forecast	Budget	Budget	Budget	Budget
Debt	0	49,320	87,819	133,668	178,407
CFR	0	77,506	106,409	142,267	181,194

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in table 6, the Authority expects to comply with this in the medium term.

***Affordable borrowing limit*:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. As a Mayoral Combined Authority a borrowing cap was agreed with Treasury which cannot be exceeded, this cap is set out below alongside the limits.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £'000

	2018/19	2019/20	2020/21	2021/22	2022/23
HMT Borrowing Cap	367,400	571,100	774,800	774,800	774,800
Authorised Limit	100,000	81,381	111,729	149,380	190,254
Operational Boundary	75,000	77,506	106,409	142,267	181,194

Further details on borrowing are included in the Treasury Management Strategy included at Appendix 1.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.

Further details on treasury investments are included in the Treasury Management Strategy included at Appendix 1.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 73 officer and finance staff, who must act in line with the treasury management strategy and treasury management practices approved by Cabinet. Mid-term and annual reports on treasury management activity are presented to the audit committee and cabinet.

4. Investments for Service Purposes

The Authority makes investments to assist in delivering the Strategic Economic Plan, including making loans to the special purpose vehicles, Local Authorities and local businesses.

Governance: Decisions on such investments have to adhere to the assurance framework and as such will follow the same assessment and decision making process as all Combined Authority investments into projects or programmes.

Further details on service investments are included within the Investment Strategy included at Appendix 3.

5. Liabilities

As set out in table 6 above the Authority currently holds no long term debt, however as at 31st March 2018 the Authority had a pension liability of £2.051m.

Governance: The risk of liabilities crystallising and requiring payment is monitored by the Finance team and reported appropriately.

6. Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount of revenue funding available for investment excluding specific grant schemes.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19	2019/20	2020/21	2021/22	2022/23
Financing costs (£'000)	0	0	1,972	2,993	6,740
Proportion of revenue	0.0%	0.0%	9.6%	14.4%	31.9%

The increasing ratio of net financing costs to net revenue is driven by the nature of Investment Programme delivery whereby borrowing in the early part of the programme is supported by longer term revenues. The Section 73 officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

7. Knowledge and Skills

The Authority has professionally qualified staff across a range of disciplines that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. The skills available from internal resources allow the Authority to assess business cases for capital investment and external professional advice is taken where required.

Through a service level agreement Stockton Borough Council (SBC) provides the Combined Authority with the treasury management service. The CIPFA code requires that staff with responsibility for treasury management receive adequate training to carry out this role. SBC assess the requirements for training as part of the staff appraisal process and they regularly attend courses and seminars provided by Arlingclose and CIPFA.

Schedule 1 – Annual Minimum Revenue Provision Statement 2019/20

Where the Authority finances capital expenditure by debt, the Capital Financing Requirement (CFR), it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2012.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Grants, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- The nature of the Authority's capital expenditure is in the form of loans and grants towards capital expenditure by third parties. As the Authority's borrowing cannot be indirectly linked to an individual asset the number of years used for MRP calculations will be 25. The MRP will be determined by charging the expenditure over this period on an annuity method.

Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until the following year.

Appendix 3

INVESTMENT STRATEGY 2019/20

1. Introduction

The Authority invests its money for two broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments), and
- to assist in delivering the Strategic Economic Plan by lending to or buying shares in other organisations (investments)

This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance on local government investments issued by the government in January 2018 (issued under section 15(1)(a) of the Local Government Act 2003), and focuses on the second of these categories.

2. Treasury Management Investments

The Authority typically receives its income in cash (predominantly in the form of Government grants) before it pays for its expenditure in cash. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

Further details: Full details of the Authority's policies and its plan for 2019/20 for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix 1.

3. Investments – Loans

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

Applications for financial support are received from various sources relating to a range of investments. As part of the assessment process a full financial, legal and commercial evaluation is carried out. This evaluation will assess and recommend the nature of the Authority's proposed investment into the project whether it be a grant or loan. Loans may be given in order to comply with state aid regulations, or alternatively it may be that the applicant has the ability to repay the support via increased revenues as a result of the investment.

Details of the loans provided as at 31 March 2018 are shown in table 1 below.

During the current financial year the Cabinet has approved a loan to Liberty Powder Metals Ltd to the value of £3.6m.

Security: The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to loans remains proportionate to the size of the Authority, statutory government guidance requires us to set upper limits on the outstanding loans to each category of borrower. It is recommended that the limits are set as follows;

Table 1: Loans in £'000

	31.3.2018 actual			2019/20
	Balance Owing £'000	**Loss allowance £'000**	**Net Figure In Accounts £'000**	**Approved Limit £'000**
Subsidiaries / JVs	0	0	0	90,000
Constituent Authorities	6,821	0	6,821	30,000
Local Businesses	34	0	34	40,000
TOTAL	**6,855**	**0**	**6,855**	**160,000**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: In making loans the Authority is exposing itself to the risk that the borrower defaults on repayments. The Authority therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Authority is proportionate and prudent.

The Authority will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

4. Proportionality

The Authority is not materially dependent on profit generating investment activity to achieve a balanced revenue budget. Table 3 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan.

Table 3: Proportionality of Investments

	2017/18	**2018/19**	**2019/20**
Revenue Expenditure £'000	48,408	38,077	89,905
Investment Returns £'000	462	420	844
Proportion	**0.95%**	**1.10%**	**0.94%**

5. Borrowing in Advance of Need

Government guidance is that Authority's must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority has not borrowed and has no plans to borrow in advance of need.

6. Capacity, Skills and Culture

Elected members and statutory officers: For all investment decisions the Authority follows the Assurance Framework agreed with Ministry of Housing Communities and Local Government (MHCLG). The Authority employs highly experienced portfolio leads covering each of the investment plan themes who are able to assess each investment decision based on the their individual knowledge and experience. Due Diligence is carried out on all investments by internal and external resources depending on the type of investment. Internal resources available cover economic, legal and financial issues but external expertise is drawn on when required. Internal members of staff carry out regular professional development through training courses and conferences. The input from the above resources result in a comprehensive appraisal of all investments which is consulted on and provided to the Cabinet for a decision.

Commercial deals: Within the Authority there is significant experience in both Public and Private Sector deals. Where required external support is drafted in to assist in these deals.

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

The Authority had adopted and has implemented the key recommendations of the CIPFA Prudential Code. This, together with the other arrangements such as the production of Treasury Management Practices and Treasury Management Strategy are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

7. Investment Indicators

The Authority has set the following quantitative indicator to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 4: Total investment exposure in £'000

	31.03.18 Actual	31.03.19 Forecast	31.03.20 Forecast
Treasury Management Investments	91,000	59,900	1,000
Investment – Loans*	6,855	9,887	62,013
TOTAL INVESTMENTS	**97,855**	**69,787**	**63,013**
Commitments to Lend	0	0	0
TOTAL EXPOSURE	**97,855**	**69,787**	**63,013**

*As an economic regeneration body the Combined Authority provides grant funding as the last option. Where possible/appropriate the Authority will seek to provide support in the form of a loan with collateral secured where possible. The default risk is that the Authority will convert the loan to a grant.

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 9

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

28 FEBRUARY 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 February 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 Risk Register.

DETAIL

1. This report presents the Tees Valley Combined Authority Corporate Risk Register as at February 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

5. None required.

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Corporate Risk 2018/19

					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 the 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 • 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 • Monthly performance reporting being developed • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19	5	1	5	-15	• Assurance Framework to be agreed by Cabinet and submitted to Government by end Mar 19 • New processes and delegations to be agreed and implemented	Mar-19		Mar-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 • Brexit funding of £182k provided to TVCA to fund preparatory work for Brexit related activities	4	3	12	-	• Liaison with other CAs/LEPs • Keep under review • Prepare priority statement on use of remainder of ESIF funding in a no deal Brexit situation	Ongoing	Regular liaison with Government on progress with UK Shared Prosperity Fund.	Mar-19

Corporate Risk 2018/19

					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)	4	2	8	-4	• Mayor to meet with Government Ministers as required/on specific projects • Investments identified in Local Industrial Strategy need to feed into Investment Plan and other external sources • Progress with external funding bids to be reported regularly to TVMG	Ongoing		Mar-19
C04	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 (Finance Director of STDC)	• 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	4	3	12	-	• New Chief Exec of STDC to be recruited			Mar-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Further Controls Required	Deadline	Comments	Review Date
C05	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 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	-	• New Chief Executive to review capacity & functions	Mar-19		Mar-19
C06	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 • Vision & Values work underway	4	2	8	-4	• Design and commission a perception study • Clarify TVCA's "key customer account management" approach • Revised Assurance Framework sets out new role for Management Group - consultee in Chief Exec's delegation	Underway	MOU being developed with Durham University.	Mar-19
C07	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		Mar-19

Corporate Risk 2018/19

					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
C08	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 • Staff fully engaged in development of logic models and the evaluation plan	5	2	10	-	• Revised Assurance Framework going to Cabinet on 15th March for submission to Government by end March • SQW (Government consultants) to prepare Tees Valley baseline	Mar-19 Mar-19	Linked to C06, C07, C08. Draft evaluation plan being agreed with SQW.	Mar-19
C08-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 Development Fund to provide upfront investment in feasibility work; also advance funding mechanism on appropriate projects • 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 • Regular liaison with BEIS • Monthly spend reviews in place • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19	5	2	10	-	• Revised Assurance Framework going to Cabinet on 15th March for submission to Government by end March • Revised EOI and business case process/documentation review • Role of TVMG in approval cycle/process is being strengthened • New processes and delegations to be agreed and implemented	Mar-19	Work ongoing on Assurance Framework compliance - Government guidance received. On target to achieve spend this financial year - keep under review	Mar-19

Corporate Risk 2018/19

					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
C08-B	• Failure to manage funding in order to deliver maximum value for money. (FINANCIAL)	• Impacts TVCA's reporting on spend to Government - added VFM requirement is specifically referenced in Devolution Deal • Investments not targeted to deliver outputs and outcomes required by SEP • Adverse effect on 5 year Government funding conversation and ability to bid successfully for other funding • Reputational damage	Investment Director/ Head of Finance, Resources & Housing		4	2	8	-	• Revised EOI and business case process/documentation review • Revised Assurance Framework going to Cabinet on 15th March for submission to Government by end March • New processes and delegations to be agreed and implemented • Review to ensure appropriate development, appraisal and assurance processes are operating effectively and efficiently			Mar-19
C09	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	5	2	10	-	• Review of internal expenditure process • Additional staff training where appropriate • Staff induction to be developed • Review need for particular controls on specific new funding programmes			Mar-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Further Controls Required	Deadline	Comments	Review Date
C10	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	5	2	10	-	• Revised Business Plan in preparation • Revised EOI and business case process/documentation • Revised Assurance Framework going to Cabinet on 15th March for submission to Government by end March	Mar-19 Mar-19		Mar-19
C11	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	-	• Address through vision & values work		Draft strategy circulated for comment - to be agreed by end Nov18	Mar-19

Corporate Risk 2018/19

					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
C12	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	• Interim MD appointed • Regular SLT meetings • Regular management one to ones • Chief Executive appointed	2	4	8	-	• Vision & values work underway - action plan to be developed		Replacement for Head of Transport to be recruited. Recruitment of Chief Executive underway.	Mar-19
C13	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 are scheduled for late Feb19	4	2	8	-	• Workshops with LEP and Leaders to take place throughout process • Comms engagement to be planned	May-19	Deadline for locally agreed draft - May19. Sign off with Government currently end summer 19 but might come forward.	Mar-19
C14	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 Board • 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	-	• Chief Exec, Directors, Legal & Commercial Manager and Head of Finance to see draft Cabinet reports in all cases			Mar-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Further Controls Required	Deadline	Comments	Review Date
C15	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	2	2	4	-	• Continue scanning for potential issues & opportunities to influence • Continue lobbying • Keep under review	Ongoing	Head of Transport appointment in process. Interim arrangements in place to cover Transport for the North activities.	Mar-19
C16	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	• Planned operating agreement • Business Plan • Agreed governance arrangements • Monitoring & reporting to DTVAL & HoldCo Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny etc	4	2	8	N/A	• Keep under review	Ongoing	To complete operating agreement by 28th Feb 19	Mar-19
C17	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	• Planned operating agreement • Business Plan • Agreed governance arrangements • Monitoring & reporting to DTVAL & HoldCo Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny etc	4	2	8	N/A	• Keep under review	Ongoing	To complete and agree business plan by 31st Mar 19	Mar-19
C18	Faliure to secure an operator in a timely way (DELIVERY)	• Reputational damage • Increased financial liabilities (see C17) • Impact on economic growth potential	Chief Executive/ Investment Director	• Planned operating agreement • Business Plan • Agreed governance arrangements • Monitoring & reporting to DTVAL & HoldCo Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny etc • Long term Transitional Services Agreement in place to allow procurement	4	2	8	N/A	• Keep under review	Ongoing	To complete operating agreement by 28th Feb 19	Mar-19

Corporate Risk 2018/19

					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 the 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 • 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 • Monthly performance reporting being developed • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19	5	1	5	-15	• Assurance Framework to be agreed by Cabinet and submitted to Government by end Mar 19 • New processes and delegations to be agreed and implemented	Mar-19		Mar-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 • Brexit funding of £182k provided to TVCA to fund preparatory work for Brexit related activities	4	3	12	-	• Liaison with other CAs/LEPs • Keep under review • Prepare priority statement on use of remainder of ESIF funding in a no deal Brexit situation	Ongoing	Regular liaison with Government on progress with UK Shared Prosperity Fund.	Mar-19

Corporate Risk 2018/19

					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)	4	2	8	-4	• Mayor to meet with Government Ministers as required/on specific projects • Investments identified in Local Industrial Strategy need to feed into Investment Plan and other external sources • Progress with external funding bids to be reported regularly to TVMG	Ongoing		Mar-19
C04	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 (Finance Director of STDC)	• 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	4	3	12	-	• New Chief Exec of STDC to be recruited			Mar-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Further Controls Required	Deadline	Comments	Review Date
C05	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 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	-	• New Chief Executive to review capacity & functions	Mar-19		Mar-19
C06	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 • Vision & Values work underway	4	2	8	-4	• Design and commission a perception study • Clarify TVCA's "key customer account management" approach • Revised Assurance Framework sets out new role for Management Group - consultee in Chief Exec's delegation	Underway	MOU being developed with Durham University.	Mar-19
C07	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		Mar-19

Corporate Risk 2018/19

					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
C08	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 • Staff fully engaged in development of logic models and the evaluation plan	5	2	10	-	• Revised Assurance Framework going to Cabinet on 15th March for submission to Government by end March • SQW (Government consultants) to prepare Tees Valley baseline	Mar-19 Mar-19	Linked to C06, C07, C08. Draft evaluation plan being agreed with SQW.	Mar-19
C08-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 Development Fund to provide upfront investment in feasibility work; also advance funding mechanism on appropriate projects • 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 • Regular liaison with BEIS • Monthly spend reviews in place • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19	5	2	10	-	• Revised Assurance Framework going to Cabinet on 15th March for submission to Government by end March • Revised EOI and business case process/documentation review • Role of TVMG in approval cycle/process is being strengthened • New processes and delegations to be agreed and implemented	Mar-19	Work ongoing on Assurance Framework compliance - Government guidance received. On target to achieve spend this financial year - keep under review	Mar-19

Corporate Risk 2018/19

					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**
C08-B	• Failure to manage funding in order to deliver maximum value for money. (FINANCIAL)	• Impacts TVCA's reporting on spend to Government - added VFM requirement is specifically referenced in Devolution Deal • Investments not targeted to deliver outputs and outcomes required by SEP • Adverse effect on 5 year Government funding conversation and ability to bid successfully for other funding • Reputational damage	Investment Director/ Head of Finance, Resources & Housing		4	2	8	-	• Revised EOI and business case process/documentation review • Revised Assurance Framework going to Cabinet on 15th March for submission to Government by end March • New processes and delegations to be agreed and implemented • Review to ensure appropriate development, appraisal and assurance processes are operating effectively and efficiently			Mar-19
C09	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	5	2	10	-	• Review of internal expenditure process • Additional staff training where appropriate • Staff induction to be developed • Review need for particular controls on specific new funding programmes			Mar-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Further Controls Required	Deadline	Comments	Review Date
C10	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	5	2	10	-	• Revised Business Plan in preparation • Revised EOI and business case process/documentation • Revised Assurance Framework going to Cabinet on 15th March for submission to Government by end March	Mar-19 Mar-19		Mar-19
C11	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	-	• Address through vision & values work		Draft strategy circulated for comment - to be agreed by end Nov18	Mar-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Further Controls Required	Deadline	Comments	Review Date
C12	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	• Interim MD appointed • Regular SLT meetings • Regular management one to ones • Chief Executive appointed	2	4	8	-	• Vision & values work underway - action plan to be developed		Replacement for Head of Transport to be recruited. Recruitment of Chief Executive underway.	Mar-19
C13	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 are scheduled for late Feb19	4	2	8	-	• Workshops with LEP and Leaders to take place throughout process • Comms engagement to be planned	May-19	Deadline for locally agreed draft - May19. Sign off with Government currently end summer 19 but might come forward.	Mar-19
C14	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 Board • 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	-	• Chief Exec, Directors, Legal & Commercial Manager and Head of Finance to see draft Cabinet reports in all cases			Mar-19

Corporate Risk 2018/19

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
C15	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	2	2	4	-	• Continue scanning for potential issues & opportunities to influence • Continue lobbying • Keep under review	Ongoing	Head of Transport appointment in process. Interim arrangements in place to cover Transport for the North activities.	Mar-19
C16	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	• Planned operating agreement • Business Plan • Agreed governance arrangements • Monitoring & reporting to DTVAL & HoldCo Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny etc	4	2	8	N/A	• Keep under review	Ongoing	To complete operating agreement by 28th Feb 19	Mar-19
C17	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	• Planned operating agreement • Business Plan • Agreed governance arrangements • Monitoring & reporting to DTVAL & HoldCo Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny etc	4	2	8	N/A	• Keep under review	Ongoing	To complete and agree business plan by 31st Mar 19	Mar-19
C18	Faliure to secure an operator in a timely way (DELIVERY)	• Reputational damage • Increased financial liabilities (see C17) • Impact on economic growth potential	Chief Executive/ Investment Director	• Planned operating agreement • Business Plan • Agreed governance arrangements • Monitoring & reporting to DTVAL & HoldCo Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny etc • Long term Transitional Services Agreement in place to allow procurement	4	2	8	N/A	• Keep under review	Ongoing	To complete operating agreement by 28th Feb 19	Mar-19

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 10

DRAFT REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

28 FEBRUARY 2019

REPORT OF HEAD OF SKILLS, EDUCATION & EMPLOYMENT

ADULT EDUCATION BUDGET

SUMMARY

This is to present the Adult Education Budget (AEB) Project Risk Register to the Audit and Governance Audit Committee.

RECOMMENDATIONS

That the up-dated AEB Project Risk Register is noted.

DETAIL

1. In preparation for the receipt of the devolved Adult Education Budget the Tees Valley Combined Authority will formally enter into a "Transitional Year" from 1 August 2018 to 31 July 2019 (Academic Year). To support this phase, a project risk register has been developed and the up-dated document is attached to this paper.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

3. The content of this report is categorised as low risk.

CONSULTATION

4. Not Applicable.

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Project Risk Register

<u>Abbreviations</u>

AEB	Adult Education Budget	DfE	Department for Education
MHCLG	Ministry of Housing, Communities & Local Government	ESFA	Education & Skills Funding Agency
MoU	Memorandum of Understanding	ILR	Individual Learner Record
IT	Information Technology	GLA	Greater London Authority
MIS	Management Information Systems	SLT	Senior Leadership Team
MCA	Mayoral Combined Authorities	ITP	Independent Training Providers
SLA	Service Level Agreement		

Project:	Adult Education Budget Devolution
Updated:	12 November 2018
To identify matters that HAVE or COULD happen and which may materially impact upon the success of the project.	

Priority:

Red = high
Amber = medium
Green = low

IMPACT	**Critical**	**4**				
	Significant	**3**				
	Moderate	**2**				
	Minor	**1**				
Risk Rating Matrix			**1**	**2**	**3**	**4**
			Unlikely	**Possible**	**Likely**	**Almost certain**
			LIKELIHOOD			

ID	**Description**	**Date Identified**	**Author**	**Impact**	**Likelihood**	**Priority (Rating)**	**Mitigating Actions**	**Owner**	**Review Date**	**Current RAG status**	**Last Updated**	**Status (Closed)**
1.	IT systems and procedures not in place for delivery.	January 2018	Jacqui Banks	4	2	Medium	Working with internal colleagues, senior management	Jacqui Banks	30/4/19	A	**09/08/18** Interim IT/MIS consultant appointed 9/7/18.	Open

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							and specialist consultants to develop robust systems. Internal reporting and data dashboards developed for 2018/19 transitional year and 2019/20 operational year. Additional data storage system confirmed and purchased. Review of data requirements is taking place in in consultation with the national Devolution Data Group.				**12/11/18** On Track **1/2/19** On Track	

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							Data Manager permanent post appointed to.					
2.	Provider payment systems not in place.	January 2018	Wendy Starks	2	1	Medium	Existing TVCA systems being reviewed and adapted to meet requirements of AEB	Jacqui Banks	31/3/19	A	**1/2/19** On track.	Open
3.	Failure to develop and agree Data Sharing Agreement with Education & Skills Funding Agency (data sharing, use of Individual Learner Record, technical support, Hub etc.	April 2018	Jacqui Banks	4	1	Medium	Continuing to work with Education & Skills Funding Agency through Mayoral Combined Authorities' meetings and Data Governance Group Data Service Level Agreement for	Jacqui Banks	30/4/19	A	**09/08/18** An Enhanced Data Service Offer received for 2019/20 **12/11/18** On Track **1/2/19** On Track	Open

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							2020/21 to be agreed and finalised.					
4.	Adequate resources including staffing to manage the Adult Education Budget are not in place.	June 2018	Jacqui Banks	4	2	Medium	Secured implementation funding allocation from DfE for 2019/20. Continue to claim from DfE up until 1.8.19. Additional staffing resources authorised to support the operational management. Continue discussion with ESFA with regard to other	Jacqui Banks	31/3/19	A	**10/7/18** Interim resources agreed. **12/11/18** Additional permanent resources secured. **1/2/19** On Track	Open

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							functions required.					
5.	Equalities Impact Assessment	08/08/18	Jacqui Banks	1	2	Low	Initial Equality impact assessment plan and provider impact assessment undertaken. Review impact following completion of the commissioning process.	Jacqui Banks	31/3/19	G	**1/2/19** On Track	Open
6.	A lack of clarity over the new Digital Entitlement from Government and impact on future funding.	03/09/18	Jacqui Banks	1	3	Medium	Officers will continue to meet with Department for Education and Education & Skills Funding Agency to get information and clarity	Jacqui Banks	1/8/19	A	**12/11/18** Awaiting details **1/2/19** Awaiting details	Open

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							Engage with providers to develop at a local level					
7.	The cost of the Government new Low Wage Pilot is unknown	03/09/18	Jacqui Banks	2	4	Medium	Officers will monitor provision and cost. The first return of the provider Individualised Learner Record (ILR) Data for 2018/19 has now been received and is being analysed.	Jacqui Banks	05/12/19	A	**12/11/18** Awaiting details **1/2/19** Awaiting details	Open
8.	Government only provides single rather than multi-year allocations, limiting the Combined Authorities ability to plan	03/09/18	Wendy Starks	2	4	Low	Existing funding system only allocates funding on annual basis. TVCA build into provider agreements.	Jacqui Banks	1/8/19	G	**12/11/18** On track **1/2/19** On Track	Open

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
	effectively for the future						Stakeholder and provider management meetings to be implemented from August 2019/20 to consider for future years in line with policy development.					
9.	Provider audit and assurance arrangements not in place for 1/8/19. These need to align with Education & Skills Funding Agency arrangements to manage visits to TVCA providers	25/09/18	Jacqui Banks	4	1	Medium	TVCA working with Education & Skills Funding Agency and Mayoral Combined Authorities to agree joint lead requirements for assessments once initial providers are identified. TVCA Finance Team involved	Jacqui Banks	31/3/19	A	**12/11/18** On Track **1/2/19** On-going	Open

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							in national discussions to agree joint working and determine level of local approach.					
10.	The results of the Commissioning Process identifies insufficient quality providers able to deliver the AEB provision for the Tees Valley in 2019/20.	30/11/18	Jacqui Banks	4	1	Low	Scenario planning and data analysis undertaken.	Jacqui Banks	1/3/19	A	**1/2/19** 52 Delivery Plans have been received.	Open
11.	The status of a provider changes in year as a result of a cause for concern.	1/2/19	Jacqui Banks	4	3	High	TVCA Provider Performance Management Framework takes into consideration changes in provider	Jacqui Banks	31/3/19	A	**1/2/19** On Track	Open

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							circumstances. Providers will be monitored monthly. Monthly meetings between the Combined Authority and the local Education Skills Funding Agency are continuing to take place which takes into account individual provider cases. TVCA to monitor any implications as part of the commissioning process.					

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
12.	Providers fail to respond to TVCA requirements.	31/1/19	Jacqui Banks	3	2	High	TVCA Provider Performance Management Framework and monthly monitoring of providers will highlight any concerns in a timely manner.	Jacqui Banks	1/8/19	A	**1/2/19** On Track	Open
13.	Specific Individualised Learner Record, eligibility and Adult Education Budget funding rules and regulations expertise is needed for provider audit and assurance arrangements	25/09/18	Jacqui Banks	4	1	Medium	External expertise currently secured and available within TVCA. Further expertise to be sourced as part of the resourcing needs, either new resources or up-skilling of existing This continues to be reviewed and considered.	Jacqui Banks	31/12/18	G	**1/2/19** Expertise in place	Closed

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
14.	Department for Education failure to provide TVCA's confirmed budget for 2019/20 before January 2019	April 2018	Jacqui Banks	2	2	Medium	Working with the Department for Education to receive their funding letter. Memorandum of Understanding sets out that 'in the event that the Department is unable to meet the 31 January aim, it will inform the CA as a matter of urgency'.	Jacqui Banks	January 2019	A	**09/08/18** On-going **1/2/19** Confirmation of budget received.	Closed
15.	2019/20 Memorandum of Understanding not in place between Department for Education and TVCA	26/03/18	Wendy Starks	4	1	Medium	Continue to work with Department for Education to finalise Memorandum of Understanding	Jacqui Banks	30/11/18	A	**23/7/18** The 2019/20 Memorandum of Understanding submitted to Ministers on 23 July with Orders	Closed

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							TVCA to continue to liaise with other Mayoral Combined Authorities				**7/12/18** TVCA confirmed acceptance of final Memorandum of Understanding Department for Education. **1/2/19** 2019/20 MoU published.	
16.	Commissioning processes not in place	March 2018	Wendy Starks	4	1	Medium	Working on producing systems and documentation in line with legal requirements. Additional resources are planned to be secured.	Jacqui Banks	30/11/18	A	**09/08/18** On Track **12/11/18** IT solution resolved Commissioning scheduled for late November 2018. **1/2/19**	Closed

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							External organisation will be procured to address the IT solution. Grant Funding Application process to be implemented.				Commissioning process launched 30.11.18 and closed to providers 1.2.19.	
17.	Legal Challenge from Department for Education to TVCA approach to commissioning and Grant Funding all providers including Independent Training Providers	August 2018	Jacqui Banks	4	3	High	External legal Advice to be sought External Legal and QC advice sought and confirmed TVCA approach is legal	Jacqui Banks	30/10/18	R	**5/11/18** Legal Challenge clarified.	Closed
18.	Funding policies not in place	January 2018	Wendy Starks	4	1	Medium	Outline documents	Jacqui Banks	30/11/18	A	**09/08/18** On Track **12/11/18**	Closed

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
	ready for commissioning						being produced.. Internal officers working group reviewing the documents. Final draft of the Funding Policy and Performance Management Framework to be ready for review by end August.				On Track **1/2/19** Funding policies published.	
19.	Provider monitoring systems not in place.	January 2018	Wendy Starks	2	1	Medium	Developing a Provider Performance Management Framework	Jacqui Banks	March 2019	A	**1/2/19** Performance Management Framework published as part of commissioning.	Closed
20.	Implementation Funding for 2018/19 proposal unsuccessful	24/01/18	Wendy Starks	3	2	Medium	Work with Department for Education to develop bid in	Shona Duncan	End March 2018	G	**28/6/18** Implementation funding from Department for Education and	Closed

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
							line with requirements				TVCA match funding agreed.	
21.	Order does not get laid in Parliament on 23 July 2018	October 2017	Jacqui Banks	4	2	Medium	Keep in regular contact with Department for Education. Draft Order shared 16/4. Second draft to be shared w/c 21/5. Formal consent from TVCA w/c 9/7 Confirmation that five Local Authorities have issued consents by 9/7/18	Jacqui Banks	July 2018	A	**10/7/18** Orders successfully Laid in Parliament	Closed
22.	Constituent Local Authorities do not agree to Order by deadline	April 2018	Jacqui Banks	4	2	Medium	Work with Andrew Nixon to inform Local Authorities prior to Order	Jacqui Banks	June 2018	A	**6/7/18** Consents from all five Local Authority received	Closed

ID	Description	Date Identified	Author	Impact	Likelihood	Priority (Rating)	Mitigating Actions	Owner	Review Date	Current RAG status	Last Updated	Status (Closed)
23.	Department for Education Readiness conditions (including Strategic Skills Plan for Adult Education Budget) not met by TVCA	October 2017	Wendy Starks	4	1	Medium	Ministry of Housing, Communities & Local Government and Department for Education assessment of our readiness conditions prior to final submission date	Wendy Starks	18/05/18	A	**28/06/18** Notification and confirmation received from Department for Education	Closed

Tees Valley Combined Authority Audit & Governance Committee

Forward Plan 2018/19

Standing Items

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

Date	Venue	Item / Responsible Officer
Friday June 7th 2019	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Introduction of New Internal Auditors/Internal Audit Charter External Audit Strategy Memorandum (Audit Plan) Corporate Risk Register Work Programme 2019/20
Thursday July 25th 2019	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Election of Chair and Vice Chair Annual Governance Statement
Thursday September 26th 2019	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	TBC

To be arranged	Cyber-security report

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