Audit & Governance Committee Agenda

Date: Thursday January 23rd 2020 at 10.00am

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

Membership:
Councillor Matthew Storey (Chair, Middlesbrough Borough Council)
Councillor Brenda Harrison (Vice Chair, Hartlepool Borough Council)
Councillor Paul Crudass (Darlington Borough Council)
Councillor Sandra Smith (Redcar & Cleveland Borough Council)
Councillor Barry Woodhouse (Stockton-On-Tees 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 meeting held on October 15th 2019 and Notes from Conference Call of November 15th 2019**
   Attached

4. **Action Tracker**
   Attached

5. **Annual Financial Statements**
   Attached

6. **Annual Audit Letter and External Audit Progress Report**
   Attached

7. **Corporate Risk Register**
   Attached

8. **Internal Progress Report**
   Attached

9. **Internal Audit Reports: Procurement and Data Protection**
   Attached

10. **Forward Plan and scheduling of future meetings**
    Attached

11. Date and Time of Next Meeting:

Thursday May 28th 2020

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 524 413 or john.hart@teesvalley-ca.gov.uk

Tees Valley Combined Authority (TVCA) Audit and Governance Committee
Cavendish House, Stockton-On-Tees
15th October 2019 – 10am

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

Attendees

Members
Councillor Matthew Storey (Middlesbrough Borough Council)
Councillor Barry Woodhouse (Stockton Borough Council)
Councillor Brenda Harrison (Hartlepool Borough Council)
Councillor Paul Crudass (Darlington Borough Council)
Paul Bury (Independent member)

Apologies for Absence
Christopher White (Independent member)
Jonny Munby (Independent member)

Officers
Gary Macdonald (Director of Finance & Resources, TVCA)
Andrew Nixon (Monitoring Officer, TVCA)
John Hart (Governance Manager, TVCA)

Also in Attendance
Gareth Roberts (Mazars – External Auditor)
Cameron Waddell (Mazars – External Auditor)
Philip Church (RSM – Internal Auditor)
Julie Prior (Legal & Commercial Manager, TVCA)
Gareth Alexander (Senior Media Relations Officer, TVCA)
Councillor Peter Berry (Redcar & Cleveland Borough Council)

AGC 15/19	**APOLOGIES FOR ABSENCE**
	Apologies for absence were received from independent members Christopher White and Jonny Munby. Introductions were made, with John Hart, Governance Manager for the Tees Valley reporting that as Redcar & Cleveland Borough Council had yet to formally approve a representative for the current civic year, nominee Cllr Peter Berry, was attending the meeting as a non-voting observer.
AGC 16/19	**DECLARATIONS OF INTEREST**
	There were no declarations of interest.

	The Governance Manager requested that members yet to submit a Declaration of Interest form do so as quickly as possible.
AGC 17/19	**APPOINTMENT OF CHAIR & VICE CHAIR**
	The Governance Manager took the Chair for this item. Cllr Matthew Storey was nominated as Chair by Cllr Brenda Harrison and seconded by Cllr Paul Cruddas. No other nominations being forthcoming Cllr Storey was unanimously elected Chair. Cllr Brenda Harrison was nominated as Vice Chair by Cllr Paul Cruddas and seconded by Councillor Barry Woodhouse. No other nominations being forthcoming Cllr Harrison was unanimously elected Vice Chair. **RESOLVED that the nominations of Cllr Storey as Chair and Cllr Harrison as Vice Chair of the TVCA Audit & Governance Committee be presented to TVCA Cabinet for ratification on October 25th 2019.**
AGC 18/19	**APPOINTMENT TO SOUTH TEES DEVEVLOPMENT CORPORATION (STDC) AUDIT & RISK COMMITTEE**
	Members recommended that this position be held by the member representing Redcar & Cleveland Borough Council and agreed to defer this appointment until this nomination had been ratified by that authority's full council. **RESOLVED that the decision be deferred until a representative of Redcar & Cleveland Borough Council be formally nominated to the committee.** Cllr Barry Woodhouse departed the meeting on the completion of this item.
AGC 19/19	**MINUTES OF MEETING HELD ON JULY 24TH 2019**
	The minutes were agreed as a true record.
AGC 20/19	**ACTION TRACKER**
	The Governance Manager introduced committee members to the outstanding items on the Action Tracker, inherited from the previous committee. Members agreed that the previously requested report on Cyber Security would be more effectively dealt with under the periodic Internal Audit items but requested that all other items be retained.
AGC 21/19	**ANNUAL FINANCIAL STATEMENTS**
	Gary Macdonald, Director of Finance & Resources for the Combined Authority, reported that due to the complexities surrounding the change in the group structure following the acquisition of Teesside International Airport immediately prior to the annual reporting deadline it had not been possible for the annual financial statements to be agreed by the External Auditors ahead of the

	deadline of July 31st 2019. Committee members agreed that they would address this item by conference call following receipt of the approved statements. Paul Bury asked if there were any consequences for the deadline being missed. Cameron Waddell of Mazars, the Combined Authority's appointed External Auditors, stated that there were no consequences, and that in his understanding in the region of 40% of local authorities had missed this deadline. Members acknowledged the unavoidability of the delay. **RESOLVED that members to hold a conference call on the Annual Financial Statements following their approval by External Auditors.**
AGC 22/19	**CORPORATE RISK REGISTER**
	The Director of Finance & Resources introduced the recently-updated Corporate Risk Register and invited questions from members. Paul Bury requested further details relating to the funding from Government for the operation of the South Tees Development Corporation. The Director of Finance and Resources stated that a Business Case had been presented to government and that early feedback had been receptive. Cllr Story asked what proportion of remediation costs for the STDC site would be funded by the government. The Director of Finance and Resources stated that this was dealt with in the Business Case and that officials had been receptive to Combined Authority proposals in this area. Paul Bury asked if a change in government would impact on the ability of the Combined Authority to secure sufficient resources to fund proposed activity related to STDC. The Director of Finance and Resources stated that although it would be impossible to fully rule this out all necessary steps at mitigating this risk would be undertaken and that Civil Service officials were aware of the need to appropriately resource the project and would make this case to any incoming government. Cllr Storey asked if Britain's scheduled departure from the European Union would have an impact on the financing of TVCA projects in terms of the loss of European Social Funding. The Director of Finance & Resources stated that all items in the Investment Plan were based on committed and guaranteed funds. He continued by stating that the design of the government's proposed Shared Prosperity Fund, intended to replace current European Structural Funding, was still awaited. Cllr Storey asked if Teesside International Airport would be affected by risk to "Transport Specific Funding". The Director of Finance and Resources stated that resources allocated to airport were detailed in the Investment Plan and were not derived from specific government programmes. **RESOLVED: Members noted the updated Corporate Risk Register.**

AGC 23/19	**INTERNAL AUDIT PROGRESS REPORT**
	Phillip Church of RSM, TVCA's Internal Auditors, introduced an Internal Audit Progress Report, stating that the auditors held a positive opinion of the Combined Authority's risk management processes and procedures at this time. **RESOLVED: Members noted the report.**
AGC 24/19	**FORWARD PLAN AND SCHEDULING OF FUTURE MEETINGS**
	The Committee agreed the draft schedule of future meetings and Forward Plan, with the Chair inviting members to suggest any additional items for discussion through himself or the Governance Manager.
AGC 25/19	**DATE OF NEXT MEETING**
	Thursday January 23rd 2020 at 10am.

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Tees Valley Combined Authority (TVCA) Audit and Governance Committee - Notes of Conference Call

November 15th 2019 – 9.30am

Please note: These are informal notes of what was discussed rather than formal minutes.

Attendees

Members
Councillor Matthew Storey (Chair, Middlesbrough Borough Council)
Councillor Brenda Harrison (Vice Chair, Hartlepool Borough Council)
Councillor Paul Crudass (Darlington Borough Council)

Apologies for Absence
Councillor Barry Woodhouse (Stockton Borough Council)
Christopher White (Independent member)
Paul Bury (Independent member)
Jonny Munby (Independent member)

Officers
Gary Macdonald (Director of Finance & Resources, TVCA)
John Hart (Governance Manager, TVCA)

APOLOGIES FOR ABSENCE
Apologies for absence were received as detailed above.
ANNUAL FINANCIAL STATEMENTS
At the committee meeting of October 15th 2019 Gary Macdonald, Director of Finance & Resources for the Combined Authority, had reported that due to the complexities surrounding the change in the group structure following the acquisition of Teesside International Airport immediately prior to the annual reporting deadline it had not been possible for the annual financial statements to be agreed by the External Auditors at that time. Committee members agreed (ACG 21/19) that they would address this item by conference call following receipt of the approved statements. This conference call took place on Friday November 15th 2019. Gary Macdonald stated that airport auditors Tait Walker had now completed their audit, and completion was expected from TVCA Group auditors Mazars imminently. He briefed members on balance sheet movements since July 31st 2019, including: • Reviewed valuation of tangible assets at Teesside International Airport.

• Reviewed valuation of intangible assets at Teesside International Airport. Members recognised the complexity of the work and thanked officers for their efforts. **RESOLVED that members present agreed to approve the Annual Financial Statements, subject to other members being given the opportunity make comment via email.**
DATE OF NEXT COMMITTEE MEETING
Thursday January 23rd 2020 at 10am.

TEES VALLEY COMBINED AUTHORITY AUDIT & GOVERNANCE COMMITTEE - ACTION TRACKER –2019-20

Meeting	Item	Action	Owner	Target Date	Update
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 now committee membership has been confirmed.
29th November 2018	Any Other Business	Committee be provided with briefing on TVCA Vision and Values exercise	TVCA		Added to Forward Plan
28th February 2019	Treasury Management Strategy	External advisors Arling Close to be invited to a future meeting of the committee to brief members on methodology used with regards to treasury management.	TVCA		Added to Forward Plan
15th October 2019	Annual Financial Statements	Members to hold conference call to discuss statements following approval from External Auditors	TVCA	January 23rd 2019	**COMPLETE**

MAZARS

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

Direct line +44 (0) 191 383 6300

Email cameron.waddell@mazars.co.uk

11 December 2019

Dear Members

Update/conclusion of pending matters– audit completion report

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 11 July 2019, and our update letter dated 22 July 2019.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached	Status
CIES	An amendment of £723k has been made to the CIES to reverse out an incorrect group consolidation adjustment made in respect of grant income in advance. Adjustment also impacts on the cash flow and Note 2 group Expenditure and Funding analysis.	Complete
Cash flow statement	An amendment for £3.5m has been made to the Cash Flow statement to correct the treatment of capital grants; there is no impact on the bottom line.	Complete
Debtors	Additional £472k of short term debtors in respect of Goosepool Group has been reclassified to long term debtors.	Complete
Cash and cash equivalents	Cash and cash equivalents – bank overdraft of £5.3m has been reclassified to Cash and cash equivalents. Adjustment has no impact on the overall net cash position of the Authority previously reported.	Complete
Related Party transactions	Note 17 - Additional disclosure included for balances held with constituent authorities as at 31 March 2018.	Complete
Capital expenditure and financing	Note 20 – Additional disclosure for TVCA only	Complete
Grant income	Note 21 – Additional disclosure for TVCA only	Complete
Other matters	A number of other grammatical and consistency amendments have been made to the draft accounts	Complete

MAZARS

<table>
<tr><th>Matter</th><th>Update/conclusion reached</th><th>Status</th></tr>
<tr><td>Review of the component auditors work on Goosepool Group</td><td>Members will recall from our previous update letter and our verbal briefing at the 15 October 2019 Audit and Governance Committee meeting that we have been awaiting the finalisation of the audit work by the component auditor of Goosepool Group, which is a component within TVCA group, in order to finalise our audit of TVCA Group.

We were advised by the auditors of Goosepool Group that their files were available for final review on 25 November, and we undertook our review on 27 November.

As a result of changes made in the audit of the Goosepool group, a component within TVCA Group, we need to report the following additional matters to you that impact on the TVCA group statements:

• Comprehensive Income and Expenditure Statement (CIES) – Transport expenditure increased by £5.7m and income by £0.4m
• Property, Plant and Equipment – reduced by £26.5m following reclassification and revaluing of group assets
• Investment property – £5.4m – new balance as a result of reclassification of group assets
• Intangible assets – increased by £16.3m following reclassification and revaluing of group assets.
• Short term debtors – increased by £247k
• Short term creditors – reduced by £487k
• Long term liabilities – increased by £1.5m
• Provisions – increased by £1.9m
• Pension liability – increased by £130k
• P&L reserve – decreased by £3.7m
• Minority interest – decreased by £3.9m

As a result of the changes noted above, amendments have also been made to a number of other disclosures, including

• Movement in Reserves Statement (MIRS)
• Cash Flow statement
• Note 1 – business combinations
• Note 2 – Expenditure & Funding analysis
• Note 6 – Tangible fixed assets – investment Property
• Note 6 – Intangible fixed assets
• Note 8 – Movement in Earmarked reserves
• Note 13 – Debtors
• Note 15 – Short term creditors
• Note 16 – Other long term liabilities
• Note 22 – Financial instruments
• Note 23 – Defined benefit pension schemes</td><td>Complete</td></tr>
<tr><td>MIRS</td><td>Additional total figure of £3.8m required to be included in the 2017/18 MIRS. Adjustment has no impact on the level of reserves previously reported in the MIRS.</td><td>Complete</td></tr>
</table>

Matter	Update/conclusion reached	Status
Note 9 – Capital Adjustment Account	Separate disclosure included in respect of group transactions.	Complete
Note 17 – Related Party Transactions	Separate disclosure included in respect of group transactions and balances.	Complete
Note 18 – External audit costs	Amendment require to show audit fees and other services paid to the group auditor separately.	Complete
Other matters	A number of other heading, grammatical and amendments have also been required to the group disclosures.	Complete
Note 6 – Intangible fixed assets	The group accounts includes two months amortisation of goodwill of £323k. Amortisation calculation is appropriate under FRS 102. However, under IAS 38, goodwill is not amortised. Therefore, this should be reversed out at TVCA group level. As goodwill has been subject to impairment at the year-end, the above error has no impact on the carrying value of Intangible assets as reported in the group's balance sheet at 31 March 2019 or the reported performance for the year through the CIES.	Complete
Fraud, Laws and regulations, Provisions and Contingencies and Going Concern	We have now received a response and have no matters to report.	Complete.
Review of Events after the Balance Sheet date.	We will discuss subsequent events with management and review available post balance sheet information at the point we are due to sign the audit opinion. We will also review the management representation letter when it is received. If any matters arise from this which we need to report to you we will issue a further letter.	Ongoing, and on track
Review and closure processes, including checking the amended version of the financial statements produced by finance as a result of our audit.	We are in the process of reviewing the amended to ensure all expected adjustments have been made. If any matters arise from this which we need to report to you we will issue a further letter. Our internal review and closure processes are on track, and will be ongoing up until the point we are due to sign the audit opinion. If any matters arise from this which we need to report to you we will issue a further letter.	Ongoing.

Fees update
In our Audit Strategy Memorandum, issued in May 2019, and presented to the Audit and Governance Committee in July 2019, we provided an estimate of our expected fees, subject to approval by PSAA. We will re-review our audit fees at the final conclusion of our audit and report any additional fees in the Annual Audit Letter, required arising from ongoing communication with the component auditor and management in relation to technical accounting issues from incorporating new component in 2018/19, dealing with technical errors and issues arising in draft statements related to the consolidation, delay to sign off, and time spent revisiting the component auditor for a second time.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

Cameron Waddell

Partner

For and on behalf of Mazars LLP

CONTENTS

Narrative Report

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

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

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

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

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

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

Narrative Report

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

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

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

Achievements in Year

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

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

Narrative Report

Looking Ahead Including Risks and Opportunities

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

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

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

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

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

Key Sections Included in the Statement of Accounts

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

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

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

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

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

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

Narrative Report

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

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

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

AON Hewitt, an independent firm of actuaries, has calculated the Authority's net liability position as £2.51million on the Local Government Pension Scheme as at 31st March 2019. Employer's contributions to the pension fund during 2018/19 were charged at 15.9% of total pensionable employee pay in line with actuarial advice. Further information on retirement benefits is available in Note 23 of the Notes to the Core Financial Statements.

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

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

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

As a result of the changes to the group structure, as set out in note 1, the format of the Movement In Reserves statement has been changed and as such the prior year format has been restated. This has had no impact on the actual reported reserve position as at 1 April 2018.

	General Fund Balance	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Combined Authority Reserves**	Authority Share of Subsidiaries Reserves	**Total Reserves attributable to the Authority**	Minority Interest	**Total Group Reserves**
	£000s	£000s	**£000s**	£000s	**£000s**	£000s	**£000s**	**£000s**	**£000s**
Movement in reserves during 2017/18									
Balance at 1 April 2017 brought forward	46,746	40,570	**87,316**	(1,890)	**85,426**	-	**85,426**	-	**85,426**
Total Comprehensive Income and Expenditure	7,181		**7,181**	49	**7,230**	3,849	**11,079**	-	**11,079**
Adjustments between accounting basis & funding basis under regulations	(5,508)	5,937	**429**	(429)	**-**	-	**-**	-	**-**
Increase/Decrease in Year	1,673	5,937	**7,610**	(380)	**7,230**	3,849	**11,079**		**11,079**
Balance at 31 March 2018 carried forward	48,419	46,507	**94,926**	(2,270)	**92,656**	3,849	**96,505**		**96,505**
Re-Allocation of Subsidiary Reserves	2,927	925	**3,852**	(3)	**3,849**	(3,849)	**-**	-	**-**
Group Reserves	51,346	47,432	**98,778**	(2,273)	**96,505**	-	**96,505**	-	**96,505**
General Fund analysed over:									
Amounts earmarked (Note 8)	50,313								
Amounts uncommitted	1,033								
Total General Fund Balance 31 March 2018	51,346								
Movement in reserves during 2018/19									
Balance at 1 April 2018 brought forward	48,419	46,507	**94,926**	(2,270)	**92,656**	3,849	**96,505**	-	**96,505**
Balance at acquisition DTVA - 15 February 2019			**-**		**-**		**-**	1,907	**1,907**
Balance at share issue of Goosepool Group 15 March 2019			**-**		**-**	1,344	**1,344**	(1,344)	**-**
Total Comprehensive Income and Expenditure	(6,887)	-	**(6,887)**	282	**(6,605)**	(5,485)	**(12,090)**	(258)	**(12,348)**
Adjustments between accounting basis & funding basis under regulations	14,086	(13,591)	**495**	(495)	**-**		**-**	-	**-**
Increase/Decrease in Year	7,199	(13,591)	(6,392)	(213)	(6,605)	(4,141)	(10,746)	305	(10,441)
Balance at 31 March 2019 carried forward	55,618	32,916	**88,534**	(2,483)	**86,051**	(292)	**85,759**	**305**	**86,064**
Re-Allocation of Subsidiary Reserves	(2,333)	2,509	**176**	(468)	**(292)**	292	**-**	-	**-**
Group Reserves	**53,285**	35,425	**88,710**	(2,951)	**85,759**	-	**85,759**	305	**86,064**
General Fund analysed over:									
Amounts earmarked (Note 8)	52,001								
Amounts uncommitted	1,284								
Total General Fund Balance 31 March 2019	**53,285**								

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

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000s	£000s	£000s	**£000s**	**£000s**	**£000s**
Movement in reserves during 2017/18						
Balance at 1 April 2017 brought forward	46,746	-	40,570	87,316	(1,890)	85,426
Total Comprehensive Income and Expenditure	7,181			7,181	49	7,230
Adjustments between accounting basis & funding basis under regulations	(5,508)		5,937	429	(429)	**-**
Increase/Decrease in Year	1,673		5,937	7,610	(380)	7,230
Balance at 31 March 2018 carried forward	48,419		46,507	94,926	(2,270)	92,656
Amounts earmarked (Note 8)	47,458					
Amounts uncommitted	961					
Total General Fund Balance at 31 March 2018	**48,419**					
Movement in reserves during 2018/19						
Balance at 1 April 2018 brought forward	48,419	-	46,507	**94,926**	(2,270)	**92,656**
Total Comprehensive Income and Expenditure	(6,887)	-	-	**(6,887)**	282	**(6,605)**
Adjustments between accounting basis & funding basis under regulations	14,086	-	(13,591)	**495**	(495)	**-**
Increase/Decrease in Year	**7,199**	**-**	**(13,591)**	**(6,392)**	**(213)**	**(6,605)**
Balance at 31 March 2019 carried forward	**55,618**	**-**	**32,916**	**88,534**	**(2,483)**	**86,051**
General Fund analysed over:						
Amounts earmarked (Note 8)	54,656					
Amounts uncommitted	962					
Total General Fund Balance at 31 March 2019	**55,618**					

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

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

2017/18				2018/19		
£000s	£000s	£000s		£000s	£000s	£000s
Expenditure	Income	Net		Expenditure	Income	Net
3,130	(1,541)	**1,589**	Business Growth	9,425	(4,461)	**4,964**
3,937	(67)	**3,870**	Research Development Innovation & Energy	14,709	(14,166)	**543**
6,382	(1,216)	**5,166**	Education Employment & Skills	5,347	(2,075)	**3,272**
685	(474)	**211**	Culture	4,626	(1,375)	**3,251**
23,338	(19,361)	**3,977**	Transport	28,617	(19,095)	**9,522**
10,706	(3,593)	**7,113**	Enabling Infrastructure	4,823	(483)	**4,340**
1,006	(1,176)	**(170)**	Project Development	4,020	(1,468)	**2,552**
4,492	(5,583)	**(1,091)**	Core Running Costs	7,852	(6,266)	**1,586**
16,628	(16,628)	**-**	Concessionary Fares	16,756	(16,756)	**-**
5,152	50	**5,202**	SSI Related Schemes Not in the Investment Plan	1,567	-	**1,567**
-	-	**-**	Place	1,250	-	**1,250**
1,411	(9,898)	**(8,487)**	Not Directly Attributable to Themes	-	(12,460)	**(12,460)**
76,867	**(59,487)**	**17,380**	**Cost Of Services**	**98,992**	**(78,605)**	**20,387**
			Financing and Investment Income and Expenditure:			
176	(136)	**40**	Net interest on the net defined benefit liability/asset	205	(160)	45
	(462)	**(462)**	Interest receivable and similar income	-	(760)	(760)
			Taxation and Non-Specific Grant Income:			
-		**-**	Taxation	-	(119)	(119)
-	-	**-**	Non-ringfenced government grants	-	-	-
-	(27,989)	**(27,989)**	Capital grants and contributions	-	(6,922)	(6,922)
77,043	**(88,074)**	**(11,031)**	**(Surplus) or Deficit on Provision of Services**	**99,197**	**(86,566)**	**12,631**
			(Surplus) or deficit on revaluation of non current assets			
		(48)	Re-measurements of the defined benefit liability			(283)
		-	Other (gains) and losses			-
		(48)	**Other Comprehensive Income and Expenditure**			**(283)**
		(11,079)	**Total Comprehensive Income and Expenditure**			**12,348**
			(Surplus) or Deficit on Provision of Services - minority interest share			*258*

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

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

Group & TVCA Balance Sheet as at 31 March 2019

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

	Note	**Group**	**TVCA**	Group	TVCA
		31 March 2019 £000s	**31 March 2019 £000s**	31 March 2018 £000s	31 March 2018 £000s
Non-current assets					
Property, plant and equipment	6	27,310	-	-	-
Investment property	6	5,388	-		
Intangible assets	6	19,388	-	-	-
Long Term Debtors	12	8,582	60,766	6,448	6,448
Total non-current assets		60,668	60,766	6,448	6,448
Current assets					
Short term investments		27,500	27,500	65,000	65,000
Inventories		196	-	-	-
Debtors	13	15,475	13,630	5,060	5,282
Cash and Cash Equivalents	14	5,034	1,657	27,426	23,352
Total current assets		48,205	42,787	97,486	93,634
Current liabilities					
Short Term Creditors	15	(15,845)	(15,172)	(5,378)	(5,375)
Total current liabilities		**(15,845)**	**(15,172)**	(5,378)	(5,375)
Long term liabilities					
Long Term Creditors	16	(2,512)	-	-	-
Other Long Term Liabilities	16 & 23	(2,512)	(2,330)	(2,051)	(2,051)
Provisions	16	(1,940)			
Total long term liabilities		**(6,964)**	**(2,330)**	(2,051)	(2,051)
Net Assets:		**86,064**	**86,051**	96,505	92,656
Reserves					
Usable reserves:					
General Fund Balance		1,284	962	1,033	961
P&L Reserve	8	(4,479)	-	-	-
Earmarked General Fund Reserves	8	56,480	54,656	50,313	47,458
Capital Grants Unapplied		35,425	32,916	47,432	46,507
		88,710	88,534	98,778	94,926
Unusable Reserves:					
Pensions Reserve	16 & 23	(2,512)	(2,330)	(2,051)	(2,051)
Minority Interest		305	-	-	-
Capital Adjustment Account	9	(273)	-	-	-
Accumulated Absences Account		(166)	(153)	(222)	(219)
		(2,646)	(2,483)	(2,273)	(2,270)
Total Reserves:		**86,064**	**86,051**	96,505	92,656

Mayor Ben Houchen

Chair Tees Valley Combined Authority Cabinet
Date 16th December 2019

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

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

	Note	**Group 2018/19 £000s**	**TVCA 2018/19 £000s**	Group 2017/18 £000s	TVCA 2017/18 £000s
Net (surplus) or deficit on the provision of services		**12,631**	**6,887**	(11,031)	(7,181)
Adjustments to net surplus or deficit on the provision of services for non-cash movements:					
Depreciation, impairment and amortisation of non current assets		(5,653)	-	-	-
Pension Fund adjustments		(613)	(561)	(385)	(386)
Adjustment for balances at date of Acquisition		108			
Increase/(Decrease) in Inventories (Stock) (net of acquisiton effects)		(37)	-	-	-
Increase/(Decrease) in Revenue Debtors (net of acquisiton effects)	13	8,548	8,348	(906)	(684)
(Increase)/Decrease in Revenue Creditors (net of acquisiton effects)	15	(8,411)	(9,797)	(3,481)	(3,478)
(Increase)/Decrease in Provisions (net of acquisiton effects)		119	-	-	-
Increase/(Decrease) in Long Term Debtors (net of acquisiton effects)	12	2,134	54,318	1,435	1,435
		(3,805)	**52,308**	(3,337)	(3,113)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:					
Capital Grants credited to surplus or deficit on the provision of services		(18,695)	(17,111)	28,084	27,989
		(18,695)	**(17,111)**	28,084	27,989
Net cashflow from operating activities		**(9,869)**	**42,084**	**13,716**	**17,695**
Investing activities					
Purchase of short term and long term investments		55,000	55,000	71,000	71,000
Purchase of property, plant and equipment, investment property and intangibles		11,273	-	-	-
Purchase of Durham Tees Valley Airport		39,793			
Proceeds from short term and long term investments		(92,500)	(92,500)	(56,056)	(56,056)
Other receipts from investing activities		18,695	17,111	(28,084)	(27,989)
Net cashflow from investing activities		**32,261**	**(20,389)**	(13,140)	(13,045)
Net (increase) or decrease in cash and cash equivalents		**22,392**	**21,695**	576	4,650
Cash and cash equivalents at the beginning of the reporting period		**(27,426)**	**(23,352)**	**(28,002)**	**(28,002)**
Cash and cash equivalents at the end of the reporting period	14	**(5,034)**	**(1,657)**	(27,426)	(23,352)
The cashflow for operating activities includes the following items:					
Interest received		**(687)**	**(687)**	(375)	(375)
Interest paid		**-**	**-**	**-**	**-**

Note 1: Group Structure

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

South Tees Development Corporation ("STDC"):

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

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

Goosepool 2019 Limited

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

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

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

South Tees Developments Limited ("STDL"):

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

Business Combinations Acquisitions

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

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

	£'000
Non-Current Assets	20,589
Current Assets	2,508
Current Liabilities	(2,306)
Long term Liabilities	(1,512)
Provisions	(1,940)
NET ASSETS (Fair Value)	**17,339**
Goodwill & Minority Interest	
Net Assets (Fair Value)	17,339
Less 11% Minority Interest	(1,907)
Less Acquisition	(40,200)
Goodwill	**24,768**

Note 2: Group Expenditure & Funding Analysis

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

2017/18				2018/19		
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000s	£000s	£000s		£000s	£000s	£000s
1,540	49	**1,589**	Business Growth	4,514	450	**4,964**
7	3,863	**3,870**	Research Development Innovation & Energy	454	89	**543**
1,173	3,993	**5,166**	Education Employment & Skills	1,953	1,319	**3,272**
467	(256)	**211**	Culture	1,323	1,928	**3,251**
1,182	2,795	**3,977**	Transport	7,185	2,337	**9,522**
872	6,241	**7,113**	Enabling Infrastructure	599	3,741	**4,340**
3,350	(3,520)	**(170)**	Project Development	5,637	(3,085)	**2,552**
1,000	(2,091)	**(1,091)**	Core Running Costs	4,291	(2,705)	**1,586**
-	-	**-**	Concessionary Fares	-	-	**-**
-	5,202	**5,202**	SSI Related Schemes Not in the Investment Plan	-	1,567	**1,567**
-	-	**-**	Place	-	1,250	**1,250**
12,130	(20,617)	**(8,487)**	Not Directly Attributable to Themes	12,468	(24,928)	**(12,460)**
21,721	**(4,341)**	**17,380**	**Net Cost Of Services**	**38,424**	**(18,037)**	**20,387**
(22,086)	(6,325)	(28,411)	Other Income and Expenditure	(38,675)	30,919	(7,756)
(365)	**(10,666)**	**(11,031)**	Surplus or Deficit	**(251)**	**12,882**	**12,631**
668			**Opening General Fund Balance**	**1,033**		
365			Less/Plus Surplus or (Deficit)	**251**		
1,033			**Closing General Fund Balance at 31 March 2019**	**1,284**		

Note 2: Group Expenditure & Funding Analysis

Group Notes to the Expenditure and Funding Analysis:

Adjustments between Funding and Accounting Basis 2018/19				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	1,692	9	(1,251)	**450**
Research Development Innovation & Energy	341	6	(258)	**89**
Education Employment & Skills	3,217	33	(1,931)	**1,319**
Culture	3,156	21	(1,249)	**1,928**
Transport	3,381	-	(1,044)	**2,337**
Enabling Infrastructure	3,843	-	(102)	**3,741**
Project Development	1,687	-	(4,772)	**(3,085)**
Core Running Costs	635	496	(3,836)	**(2,705)**
Concessionary Fares	-	-	-	**-**
SSI Related Schemes Not in the Investment Plan	-	3	1,564	**1,567**
Place	1,250	-	-	**1,250**
Not Directly Attributable to Themes	-	-	(24,928)	**(24,928)**
Net Cost Of Services	19,202	568	(37,807)	**(18,037)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(6,922)	46	37,795	**30,919**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	12,280	614	(12)	**12,882**

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

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

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

Group Notes to the Expenditure and Funding Analysis:

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

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

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

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

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

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

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

Expenditure and Income Analysed By Nature

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

	Group	Group
	2018/19	2017/18
	£000s	£000s
Expenditure		
Employee benefits expenses	6,466	3,694
Other services expenses	92,526	73,173
Interest payments	205	176
Total Expenditure	**99,197**	77,043
Income		
Fees, charges and other service income	(1,547)	(108)
Interest and investment income	(920)	(598)
Government grants and contributions	(83,980)	(87,368)
Taxation	(119)	-
Total Income	**(86,566)**	(88,074)
(Surplus) or Deficit on the Provision of Services	**12,631**	(11,031)

Segmental Income

Income received on a segmental basis is analysed below:

	Group	Group
	2018/19	2018/19
	£000s	£000s
Services	**Income from Services**	Income from Services
Business Growth	-	0
Research Development Innovation & Energy	-	0
Education Employment & Skills	(3)	(7)
Culture	(16)	0
Transport	(982)	0
Enabling Infrastructure	-	0
Project Development	-	0
Core Running Costs	(546)	(94)
SSI Related Schemes Not in the Investment Plan	-	(7)
Place	-	0
Not Directly Attributable to Themes	-	0
Total income analysed on a segmental basis	**(1,547)**	(108)

Note 2: Expenditure & Funding Analysis TVCA

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

2017/18				2018/19		
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000s	£000s	£000s		£000s	£000s	£000s
1,540	49	**1,589**	Business Growth	4,514	450	**4,964**
7	3,863	**3,870**	Research Development Innovation & Energy	454	89	**543**
1,173	3,993	**5,166**	Education Employment & Skills	1,953	1,319	**3,272**
467	(256)	**211**	Culture	1,323	1,928	**3,251**
1,182	2,795	**3,977**	Transport	1,109	2,337	**3,446**
872	7,166	**8,038**	Enabling Infrastructure	10	3,838	**3,848**
3,350	(2,770)	**580**	Project Development	5,637	(3,085)	**2,552**
1,072	12	**1,084**	Core Running Costs	2,607	(2,008)	**599**
-	-	**-**	Concessionary Fares	-	-	**-**
-	5,202	**5,202**	SSI Related Schemes Not in the Investment Plan	-	1,567	**1,567**
-	-	**-**	Place	-	1,250	**1,250**
12,130	(20,617)	**(8,487)**	Not Directly Attributable to Themes	12,468	(24,928)	**(12,460)**
21,793	**(563)**	**21,230**	**Net Cost Of Services**	**30,075**	**(17,243)**	**12,832**
(22,086)	(6,325)	(28,411)	Other Income and Expenditure	(30,076)	24,131	(5,945)
(293)	**(6,888)**	**(7,181)**	Surplus or Deficit	**(1)**	**6,888**	**6,887**
668			**Opening General Fund Balance**	**961**		
293			Less/Plus Surplus or (Deficit)	**1**		
961			**Closing General Fund Balance at 31 March 2019**	**962**		

Note 2: Expenditure & Funding Analysis TVCA

Notes to the Expenditure and Funding Analysis: TVCA

Adjustments between Funding and Accounting Basis 2018/19				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	1,692	9	(1,251)	**450**
Research Development Innovation & Energy	341	6	(258)	**89**
Education Employment & Skills	3,217	33	(1,931)	**1,319**
Culture	3,156	21	(1,249)	**1,928**
Transport	3,381	-	(1,044)	**2,337**
Enabling Infrastructure	3,843	-	(5)	**3,838**
Project Development	1,687	-	(4,772)	**(3,085)**
Core Running Costs	-	442	(2,450)	**(2,008)**
Concessionary Fares	-	-	-	**-**
SSI Related Schemes Not in the Investment Plan	-	3	1,564	**1,567**
Place	1,250	-	-	**1,250**
Not Directly Attributable to Themes	-	-	(24,928)	**(24,928)**
Net Cost Of Services	18,567	514	(36,324)	**(17,243)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(4,976)	46	29,061	**24,131**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	13,591	560	(7,263)	**6,888**

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	1,394	9	(1,355)	48
Research Development Innovation & Energy	3,327	-	536	3,863
Education Employment & Skills	4,886	14	(907)	3,993
Culture	201	7	(464)	(256)
Transport	3,908	-	(1,114)	2,794
Enabling Infrastructure	7,800	3	(637)	7,166
Project Development	536	-	(3,305)	(2,769)
Core Running Costs	-	300	(288)	12
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	13	5,189	5,202
Not Directly Attributable to Themes	-	-	(20,616)	(20,616)
Net Cost Of Services `	**22,052**	**346**	**(22,961)**	**(563)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(27,989)	40	21,624	(6,325)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	**(5,937)**	**386**	**(1,337)**	**(6,888)**

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

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

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

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

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

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

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

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

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

Expenditure and Income Analysed By Nature

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

	2018/19	2017/18
	£000s	£000s
Expenditure		
Employee benefits expenses	5,080	3,579
Other services expenses	82,908	77,128
Interest payments	204	176
Total Expenditure	**88,192**	80,883
Income		
Fees, charges and other service income	(50)	(98)
Interest and investment income	(1,173)	(598)
Government grants and contributions	(80,082)	(87,368)
Total Income	**(81,305)**	(88,064)
(Surplus) or Deficit on the Provision of Services	**6,887**	(7,181)

Segmental Income

Income received on a segmental basis is analysed below:

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

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

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

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

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

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

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

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

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

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

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

- IAS36 states that the useful life of an intangible asset is either finite or indefinite. Intangible assets with finite useful life (including those that are revalued) are amortised. Amortisation is carried out on a systematic basis over the useful lives of the intangible assets. Management has used its judgement in classifying the useful life of the Goodwill in Goosepool to be finite (10 years) based on the business plan to turn around the performance of the airport.

- The code of practice requires that annual impairment tests are carried out on the value of goodwill. Management have carried out the required assessments in year and in doing so have tested the assumptions set out in the business forecasts and have conducted appropriate sensitivity analysis that reflect the inherent risks at this stage of the plan.

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

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

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

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

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

	Land & Buildings	Fixtures & Fittings	Assets Under Construction	Surplus Assets	TOTAL
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Cost					
As at 1 April 2018	-	-	-	-	**-**
Additions	12,273	149	1,831	13,649	**27,902**
Revaluation	(273)	-	-	-	**(273)**
Disposals	-	-	-	-	**-**
As at 31 March 2019	12,000	149	1,831	13,649	**27,629**
Depreciation					
As at 1 April 2018	-	-	-	-	**-**
Additions	-	-	-	-	**-**
Depreciation Charge	-	-	-	-	**-**
Impairments	-	-	(319)	-	**(319)**
Derecognition of Disposals	-	-	-	-	**-**
As at 31 March 2019	-	-	(319)	-	**(319)**
Net Book Value					
As at 1 April 2018	-	-	-	-	-
As at 31 March 2019	**12,000**	**149**	**1,512**	**13,649**	**27,310**

The Authority does not hold any fixed assets as a single entity.

Land and buildings are held by STDC Group with all other assets being held by Goosepool Group.
Land and buildings are initially recognised at cost. Freehold land is subsequently carried at the revalued amount less accumulated impairment losses. Buildings and leasehold land are subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses.
An independent values opinion of Fair Value was prepared as at 31 March 2019 in accordance with the RICS Valuation - Global Standards 2017 , CPIFA Code, and the International Financial Reporting Standards (IFRS) and related definition of "Fair Value". This valuation was carried out by GVA Grimley Ltd and has informed the revalued figure shown in the accounts. Buildings on the land are dilapidated redundant assets from a former use and therefore carry no value.

The assets of Goosepool Group are held based on continuing operations as an operational airport.
Surplus assets within Goosepool Group are the mothballed hotel and land which is not currently providing service potential for the Group, both of which are held at fair value. An independent values opinion of Fair Value was prepared as at 31 March 2019 in accordance with the RICS Valuation - Global Standards 2017 , CPIFA Code, and the International Financial Reporting Standards (IFRS) and related definition of "Fair Value". This valuation was carried out by JK Property Consultants LLP and has informed the figure shown in the accounts.
The asset under construction relates to the Radar at the airport which is held at current value, determined as the amount the amount that would be paid for the asset in its existing use. At 31 March 2019 an independent valuation was received from NATS Holdings Ltd to determine the current valuation of the Radar and has informed the revalued figure shown in the accounts.

Note 6: Tangible Fixed Assets (Group) Investment Properties

	£000s
Cost	
As at 1 April 2018	-
Additions	5,388
Revaluation	-
Disposals	-
As at 31 March 2019	5,388
Depreciation	
As at 1 April 2018	-
Additions	-
Depreciation Charge	-
Impairments	-
Derecognition of Disposals	-
As at 31 March 2019	-
Net Book Value	
As at 1 April 2018	-
As at 31 March 2019	**5,388**

Investment properties are those that do not in any way to facilitate the delivery of services or production of goods, are held for sale or form part of a wider regeneration programme. All the Investment Properties held by the group are assets of Goosepool Group and are not involved in the running of an operational airport. All investment properties have been professionally valued by JK Property Consultants LLP as at 31 March 2019

Note 6: Intangible Fixed Assets (Group)

	£000s
As at 1 April 2018	-
Additions	24,768
Amortisation	(413)
Impairment	(4,967)
As at 31 March 2019	**19,388**

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

A cash-generating unit to which goodwill has been allocated shall be tested for impairment at least annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. There are two options under which the recoverable amount can be derived, being the higher of fair value less costs to sell or value in use. The value in use valuation method has been utilised in order to derive the goodwill figure.

Value in use is the present value of the future cash flows expected to be derived from an asset. This present value calculation involves the following steps:
(a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
(b) applying the appropriate discount rate to those future cash flows.

The latest available financial projections for the asset based on the business case and financial plan have been utilised to forecast future cashflows. Cash flow projections beyond the period covered by the most recent budgets or forecasts have been extrapolated based on a steady growth rate for subsequent years. The current expectation and intention is that the airport will continue in use for the foreseeable future, given this the disposal of the asset has not been included in the cashflow as allowed, instead the forecasts have been extended over a 30 year period, to reflect this continued use.

The plan is driven by a combination of increased revenues and reduced unit costs arising from growth in passenger numbers in line with the business case and market analysis. Various factors were taking into account when carrying out the impairment review and management have conducted appropriate sensitivity analysis in respect of passenger numbers that reflects the inherent risk at this stage of the plan. With the proposed NPV calculation we have included the Government suggested rate of 3.5%. The plans that have been set out assume that the asset will continue in its current use as an airport and that any capital investment that is made will be to maintain the current operations rather than to enhance the asset.

The useful life of an intangible asset is either finite or indefinite. Intangible assets with finite useful life (including those that are revalued) are amortised. Management have estimated that the useful life of associated Goodwill is 10 years, this is consistent with the business plan that management have implemented to bring the airport back into profit.

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

Group

2018/19	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Grants Unapplied Account	12,007		(12,007)	-
Adjustments involving the Pensions Reserve	743			(743)
Adjustments involving the Accumulated Absences Adjustment Account	(56)			56
Total Adjustments	**12,694**	**-**	**(12,007)**	**(687)**

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

TVCA

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

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

Note 8: Movements in Earmarked Reserves

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

Group

Earmarked Reserves	Balance at 31 March 2018 £000s	Transfers Out 2018/19 £000s	Transfers In 2018/19 £000s	Balance at 31 March 2019 £000s
Revenue Reserves				
Development Pot	(1,939)	909	-	(1,030)
Investment Fund	(31,386)	1,308	(13,155)	(43,233)
SSI	(16,988)	4,771	-	(12,217)
P&L Reserve	-	4,479	-	4,479
Total Revenue Reserves	**(50,313)**	**11,467**	**(13,155)**	**(52,001)**

Earmarked Reserves	Balance at 1 April 2017 £000s	Transfers Out 2017/18 £000s	Transfers In 2017/18 £000s	Balance at 31 March 2018 £000s
Revenue Reserves				
Development Pot	(2,159)	220	-	(1,939)
Investment Fund	(21,587)	1,543	(11,342)	(31,386)
SSI	(22,332)	5,344	-	(16,988)
Total Revenue Reserves	**(46,078)**	**7,107**	**(11,342)**	**(50,313)**

TVCA

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

Earmarked Reserves	Balance at 1 April 2017 £000s	Transfers Out 2017/18 £000s	Transfers In 2017/18 £000s	Balance at 31 March 2018 £000s
Revenue Reserves				
Development Pot	(2,159)	220	-	(1,939)
Investment Fund	(21,587)	1,543	(8,587)	(28,631)
SSI	(22,332)	5,344	-	(16,988)
Total Revenue Reserves	**(46,078)**	**7,107**	**(8,587)**	**(47,558)**

Note 9: Capital Adjustment Account
Group and TVCA

	GROUP	
	2018/19	**2017/18**
Balance at 1 April 2018	**£000s**	**£000s**
Revenue expenditure funded from capital under statute	51,940	43,151
	51,940	43,151
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(30,716)	(18,279)
Application of grants to capital financing from the Capital Grants Unapplied Account	(18,929)	(22,052)
Capital expenditure charged against the General Fund balance	(2,295)	(2,820)
Revaluation of non current assets	273	-
	(51,667)	(43,151)
Balance at 31 March 2019	**273**	**-**

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

Note 10: TVCA Members' Allowances

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

During the year payments were made to the Mayor totalling £38,406 which consisted of £36,537 Mayoral Allowance and £1,869 travel and subsistence (2017/18 £32,375).
The Chair of the Local Enterprise partnership, Paul Booth, sits on TVCA Cabinet and during the year he was re-imbursed £3,406 in relation to accommodation and travel costs incurred whilst representing TVCA (2017/18 £5,203).

Tees Valley Combined Authority (and Group) - Annual Financial Statements 2018/19
Note 11: Employee remuneration (TVCA and Group)

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

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

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

STDC - The Chief Executive was employed by the South Tees Site Company, a Government ran organisation responsible for the safety, security and upkeep of the former SSI site. The postholder left the role in September 2018 and no recharge took place for his salary.
The Senior Non Executive Director deputised for the CEO from that date.
The Director of Finance is employed by Tees Valley Combined Authority.
Neither of the above received direct remuneration from STDC, however a proportion of the Director of Finance salary is recharged to STDC by TVCA and in 2018/19 this amounted to £11,461 (2017/18 £28,953)

Goosepool - As a result of Goosepool only forming part of the group for six weeks of the year there are no material items to disclose.

Note 11: Employee remuneration (TVCA and Group)

Remuneration of Senior Employees 2017/18						
Post holder information	**Salary (Including fees & Allowances) £**	**Expense Allowances £**	**Benefits in kind £**	**Total Remuneration excluding pension contributions 2017/18 £**	**Pension contributions £**	**Total Remuneration including pension contributions 2017/18 £**
Managing Director	136,350	734	-	**137,084**	32,814	**169,898**
Strategy Director	89,259	549	-	**89,808**	14,192	**104,000**
Investment Director	89,259	599	-	**89,858**	14,192	**104,050**
Business Director	89,259	1,473	-	**90,732**	14,192	**104,924**
Head of Skills Education & Employment	75,487	-	-	**75,487**	12,002	**87,489**
Head of Culture & Tourism	75,057	-	-	**75,057**	12,002	**87,059**
Director of Finance	56,387	-	-	**56,387**	8,965	**65,352**
Head of Transport	75,487	-	-	**75,487**	12,002	**87,489**
Head of Comms & Marketing	13,190	-		**13,190**	2,097	**15,287**
Head of Homes & Communities	75,487	-	-	**75,487**	12,002	**87,489**
TVCA TOTAL	775,222	3,355	-	**778,577**	134,460	**913,037**

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

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

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

Note 12: Long Term Debtors

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

Note 13: Debtors

	Group 31 March 2019 £000s	TVCA 31 March 2019 £000s	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s
Central Government	6,233	6,016	1,576	1,569
Local Government	6,589	6,589	3,254	3,483
Other entities and individuals	2,653	1,025	230	230
	15,475	**13,630**	**5,060**	**5,282**

Note 14: Cash and Cash Equivalents

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

Note 15: Short Term Creditors

	Group 31 March 2019 £000s	TVCA 31 March 2019 £000s	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s
Central Government	(6,138)	(6,062)	(90)	(90)
Local Government	(3,881)	(7,057)	(2,650)	(2,650)
Other entities and individuals	(5,826)	(2,053)	(2,638)	(2,635)
	(15,845)	**(15,172)**	**(5,378)**	**(5,375)**

Note 16: Other Long Term Liabilities

	Group 31 March 2019 £000s	TVCA 31 March 2019 £000s	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s
Net pensions liability	(2,512)	(2,330)	(2,051)	(2,051)
Long Term Creditors	(2,512)	-	-	-
Deferred Tax Provision	(1,333)	-	-	-
Other Provisions	(607)	-	-	-
	(6,964)	**(2,330)**	**(2,051)**	**(2,051)**

Note 17: Related Party Transactions (Group)

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

TVCA Constituent Authorities

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

2018/19	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,451	6,157
Middlesbrough Borough Council	4,636	7,285
Redcar & Cleveland Borough Council	5,156	10,166
Hartlepool Borough Council	2,427	7,127
Darlington Borough Council	3,235	3,190
Total	**19,905**	**33,925**

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

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

2018/19	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
Stockton On Tees Borough Council	-	369	752
Middlesbrough Borough Council	3,240	311	2,938
Redcar & Cleveland Borough Council	-	2,183	200
Hartlepool Borough Council	100	1,810	107
Darlington Borough Council	3,230	1,128	339
Total	**6,570**	**5,801**	**4,336**

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

2017/18	Long Term Debtors £000s	Short Term Debtors £000s	Short Term Creditors £000s
Stockton On Tees Borough Council	-	120	750
Middlesbrough Borough Council	3,552	675	241
Redcar & Cleveland Borough Council	-	2,318	246
Hartlepool Borough Council	1,763	139	158
Darlington Borough Council	1,100	1	688
Total	**6,415**	**3,253**	**2,083**

South Tees Site Company is a Government controlled organisation who is responsible for the safety, security and upkeep of the former SSI Site which forms part of the South Tees Development Corporations designated area. During the year STDC recieved £2k income from the Site Company and expended £192k with them, of which £75k was owed at 31 March 2019.

Note 17: Related Party Transactions (TVCA)

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

Central Government

Central government has effective control over the general operations of TVCA – it is responsible for providing the statutory framework within which they operate, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that they have with other parties. Grants received from government departments are set out in the subjective analysis in Note 21. During the year the Group incurred expenditure totalling £15k in relation to Central Government Departments excluding HMRC.

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 10. During 2018/19, there were no related party transactions between members and TVCA.

Entities Controlled or Significantly Influenced by the Authority

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

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

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

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

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

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

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

TVCA Constituent Authorities

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

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

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

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

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

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

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

Note 18: External Audit Costs (TVCA and Group)

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

	Group 2018/19 £000s	**TVCA 2018/19 £000s**	Group 2017/18 £000s	TVCA 2017/18 £000s
Fees payable to Mazars LLP with regard to external audit services	50	29	48	30
Fees payable to MHA Tait Walker with regard to external audit services	30	-	-	-
	80	**29**	48	30
Rebate from Public Sector Audit Appointments Ltd				(4)

In addition to the above fees paid to MHA Tait Walker, £4k other fees were paid for Taxation compliance services provided.

Note 19: Leases (TVCA and Group)

Operating leases: TVCA as lessee

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

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

Within STDC Group there are leases which came with the purchase of land (both as lessee and lessor), these do not transfer the risks and rewards to the lessee, so do not qualify as finance leases. The nature of the agreements is for rents of items which could not be seen as assets, e.g. pipework, the value of these leases is £202k.

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

Operating leases: Group lessors

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

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

Within STDC Group there are leases which came with the purchase of land (both as lessee and lessor), these do not transfer the risks and rewards to the lessee, so do not qualify as finance leases. The nature of the agreements is for rents of items which could not be seen as assets, e.g. pipework, the value of these leases is £255k.

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

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

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

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

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

Note 21: Grant Income (TVCA and Group)

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

	Group	**TVCA**	Group	TVCA
	2018/19	**2018/19**	2017/18	2017/18
	£000s	**£000s**	£000s	£000s
Credited to Taxation and Non Specific Grant Income				
Local Growth Fund	-	-	27,989	27,989
Transforming Cities Fund	2,921	2,921	-	-
National Productivity Investment Fund	1,555	1,555	-	-
DfT Local Majors	500	500	-	-
South Tees Development Corporation Praire Site	1,946	-	-	-
Total	**6,922**	**4,976**	27,989	27,989

Credited to Services

	Group 2018/19 £000s	**TVCA 2018/19 £000s**	Group 2017/18 £000s	TVCA 2017/18 £000s
Adult Education Budget Transition	285	285	16	16
AGE	-	-	379	379
BEIS Local Energy Capacity Support	294	294	-	-
BIES Growth Hub	246	246	246	246
DECC - City Deal / Carbon	33	33	7	7
Devolution	15,000	15,000	15,000	15,000
DfT Access Fund	1,109	1,109	1,163	1,163
DfT Local Majors		-	100	100
DWP Routes To Work	1,157	1,157	133	133
ERDF Business Compass	4,196	4,196	-	-
ESFA Apprenticeship	5	5	-	-
ESIF	-	-	1,337	1,337
ESIF Technical Assistance	25	25	-	-
Heat Network District Unit	70	70	-	-
HLF Great Places	521	521	85	85
LEP Core	500	500	500	500
Local Growth Fund	13,708	13,708	-	-
Local industrial Strategy	20	20	-	-
Local Transport Plan	13,943	13,943	13,952	13,952
Mayoral Capacity Funding	1,000	1,000	-	-
MCA Funding	199	199	-	-
National Productivity Investment Fund	1,719	1,719	2,298	2,298
One Public Estates	-	-	359	359
Pothole Action Fund	253	253	1,929	1,929
South Tees Development Corporation OPEX	2,000	-	2,399	-
South Tees Development Corporation Praire Site	14	-	-	
Transforming Cities Fund	1,079	1,079	-	-
	57,376	**55,362**	39,903	37,504

Capital and Revenue Grants Receipts in Advance

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

Note 22: Financial Instruments (Group)

Categories of Financial Instruments

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

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

Financial Assets

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

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

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

Financial Instruments

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

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

	Long Term		**Short Term**	
	31 March 2019	31 March 2018	**31 March 2019**	31 March 2018
	£000s	£000s	**£000s**	£000s
At Amortised Cost	8,582	6,448	46,360	97,144
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial assets	**8,582**	6,448	**46,360**	97,144

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

	Long Term		**Short Term**		
	31 March 2019	31 March 2018	**31 March 2019**		31 March 2018
	£000s	£000s	**£000s**		£000s
At Amortised Cost	(1,000)	-	(15,271)	#	(4,922)
At Fair Value Through Other Comprehensive Income	-	-	-		-
At Fair Value Through Profit & Loss	-	-	-		-
Total financial liabilities	**(1,000)**	-	**(15,271)**		(4,922)

Nature and Extent of Risks Arising from Financial Instruments

Key risks

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

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

Note 22: Financial Instruments (Group)

Credit Risk: Treasury Investments

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

	2018/19		2017/18	
	Long Term	Short Term	Long Term	Short Term
Credit Rating	**£000s**	**£000s**	**£000s**	**£000s**
AAA				23,000
AA+				
AA				
AA-				
A+		14,000		
A				30,000
A-		500		
Unrated Local Authorities		20,000		38,000
Total financial assets	**-**	**34,500**	-	91,000

Liquidity Risk

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

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

As at 31 March 2019, all of the group's deposits were due to mature within 364 days.

Market Risk

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

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

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

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

	2018/19	2017/18
	£000s	£000s
Increase in interest receivable on variable rate investments	(150)	(258)
Impact on (Surplus) or Deficit on the Provision of Services	**(150)**	(258)

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

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

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

Note 22: Financial Instruments (TVCA)

Categories of Financial Instruments

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

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

Financial Assets

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

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

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

Financial Instruments

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

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

	Long Term		**Short Term**	
	31 March 2019	31 March 2018	**31 March 2019**	31 March 2018
	£000s	£000s	**£000s**	£000s
At Amortised Cost	60,766	6,448	41,920	93,292
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial assets	**60,766**	6,448	**41,920**	93,292

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

	Long Term		**Short Term**	
	31 March 2019	31 March 2018	**31 March 2019**	31 March 2018
	£000s	£000s	**£000s**	£000s
At Amortised Cost	-	-	(14,916)	(5,151)
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial liabilities	**-**	-	**(14,916)**	(5,151)

Nature and Extent of Risks Arising from Financial Instruments

Key risks

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

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

Note 22: Financial Instruments (TVCA)

Credit Risk: Treasury Investments

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

	2018/19		2017/18	
	Long Term	**Short Term**	**Long Term**	**Short Term**
Credit Rating	**£000s**	**£000s**	**£000s**	**£000s**
AAA				23,000
AA+				
AA				
AA-				
A+		14,000		
A				30,000
A-		500		
Unrated Local Authorities		20,000		38,000
Total financial assets	**-**	**34,500**	-	91,000

Liquidity Risk

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

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

As at 31 March 2019, all of the Authority's deposits were due to mature within 364 days.

Market Risk

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

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

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

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

	2018/19	2017/18
	£000s	£000s
Increase in interest receivable on variable rate investments	(150)	(258)
Impact on (Surplus) or Deficit on the Provision of Services	**(150)**	(258)

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

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

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

Note 23: Defined Benefit Pension Schemes (Group)

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

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

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

Note 23: Defined Benefit Pension Schemes (Group)

	Local Government Pension Scheme	
	2018/19	2017/18
	£000s	£000s
Comprehensive Income and Expenditure Statement		
Cost of Services:		
• Current service cost	1,176	715
• Past service cost	10	15
Financing and Investment Income and Expenditure		
Net interest cost	45	40
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**1,231**	770
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
• Return on plan assets (excluding the amount included in the net interest expense)	(341)	(47)
• Actuarial gains and losses arising on changes in financial assumptions	447	(1)
• Actuarial gains and losses due to liability experience	-	-
• Actuarial gains and losses due to changes in demographic assumptions	(389)	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(283)**	(48)
Movement in Reserves Statement		
• Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(1,231)	(770)
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	**617**	385

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

Pension Assets and Liabilities Recognised in the Balance Sheet

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

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

Note 23: Defined Benefit Pension Schemes (Group)

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

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

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

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

Local Government Pension Scheme assets comprised:

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

Basis for Estimating Assets and Liabilities

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

Note 23: Defined Benefit Pension Schemes (Group)

The principal assumptions used by the actuary have been:

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

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

Impact on the Defined Benefit Obligation in the Scheme

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

Impact on the Groups Cash Flows

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

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

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

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

Note 23: Defined Benefit Pension Schemes (TVCA)

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

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

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

Note 23: Defined Benefit Pension Schemes (TVCA)

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

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

Pension Assets and Liabilities Recognised in the Balance Sheet

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

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

Note 23: Defined Benefit Pension Schemes (TVCA)

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

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

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

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

Local Government Pension Scheme assets comprised:

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

Basis for Estimating Assets and Liabilities

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

Note 23: Defined Benefit Pension Schemes (TVCA)

The principal assumptions used by the actuary have been:

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

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

Impact on the Defined Benefit Obligation in the Scheme

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

Impact on the Authority's Cash Flows

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

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

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

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

Note 24: Termination Benefits (TVCA and Group)

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

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

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

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

Note 25: Provisions (TVCA and Group)

Within the group statements a deferred tax provision has been included relating to the fair value adjustment of assets within the Goosepool Group £1,333k

In addition to this there is a provision within Goosepool group relating to the obligation to pay for repair costs for the rail halt at Durham Tees Valley Airport Rail Station. These repairs have been estimated by a third party and are provided for to the value of £607k.

(2017/18 Nil)

Note 26: Contingent Liabilities (TVCA and Group)

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

The McCloud judgement relates to age discrimination cases brought relating to previously reformed pension schemes, including most significantly, moving from final salary arrangements to career averages. The age discrimination cases arise because protection was provided for some, but not all employees, when the arrangements were introduced. A Court of Appeal judgement has ruled that there was age discrimination in a test case.

The latest figures provided estimate the increase in liabilities to be 2.1% this would equate to a liability of £196k for the Authority.

In 2007 Durham Tees Valley Airport Limited entered into an infrastructure agreement with English Partnerships and One North East (now the Homes and Communities Agency). Grant funding of £458,124 was received in connection with this agreement. However until all conditions attached to the agreement have been satisfied the amount received is repayable to the awarding body. Since all conditions have not currently been met the full amount of the grant received is included in Other creditors.

(2017/18 Nil)

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

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

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

(2017/18 Nil)

Note 28: Statement of Accounting Policies (Group)

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

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

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

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

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

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

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

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

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

Note 28: Statement of Accounting Policies (Group)

The Local Government Pension Scheme

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

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

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

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

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

Service cost comprising:

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

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

Remeasurements comprising:

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

Contributions paid to the Teesside Pension Fund:

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

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

Note 28: Statement of Accounting Policies (Group)

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

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

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

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

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

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

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

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

Note 28: Statement of Accounting Policies (Group)

Intangible Assets

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

Inventories

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

Investment Property

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

Leases

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

Operating Leases as Leasee

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

Operating Leases as Lessor

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

Overheads and Support Services

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

Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

Note 28: Statement of Accounting Policies (Group)

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

Note 28: Statement of Accounting Policies (Group)

Goodwill

The CIPFA Code states that the acquisition method should be adopted through the initial business combination following IFRS 3 for guidance and refers to IAS 36 for consideration of goodwill.

Identifiable assets acquired, liabilities assumed, and non-controlling interests in the acquiree, are recognised separately from goodwill. All assets acquired and liabilities assumed in a business combination are measured at acquisition-date fair value.

Goodwill is measured as the difference between:

• the aggregate of (i) the value of the consideration transferred (generally at fair value), (ii) the amount of any non-controlling interest, and

• the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed

After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost/ revaluation less accumulated amortisation and accumulated impairment losses.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Contingent Liabilities & Contingent Assets

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

Reserves

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

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

Revenue Expenditure Funded from Capital under Statute

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

VAT

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

Note 28: Statement of Accounting Policies (Group)

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

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

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

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

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

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

Responsibilities for the Annual Financial Statements

The Authority and Group's Responsibilities

The Tees Valley Combined Authority Group is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Group, that officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Annual Financial Statements by the date specified by the Secretary of State.

The Chief Financial Officers Responsibilities

The Chief Financial Officer is responsible for the preparation of the Groups Annual Financial Statements in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice).

In preparing the Annual Financial Statements, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice.

The Chief Financial Officer has also:

- kept accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the accounts by the Chief Financial Officer

In accordance with the requirements of the Accounts and Audit Regulations 2015, I certify that by signing this statement the Annual Financial Statements give a true and fair view of the financial position of Tees Valley Combined Authority Group Accounts at the accounting date and its income and expenditure for the year ended 31 March 2019.

J Gilhespie **Date: 31 May 2019**
Chief Executive

These financial statements replace the unaudited financial statements certified by the Director of Finance on 31st May 2019.

G Macdonald **Date: 16th December 2019**
Director of Finance & Resources

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEES VALLEY COMBINED AUTHORITY

Appendix A

Glossary of Terms

Accruals
The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortised cost
The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount. International Accounting Standard (IAS) 39 requires the amortised cost to be calculated using the effective interest method.

Capital Charge
A charge to service revenue accounts to reflect the cost of non current assets used in the provision of a service.

Capital Expenditure

Expenditure on the acquisition of a non current asset or expenditure designed to extend its useful life.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingency
A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non occurrence of one or more uncertain future events.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non current asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

Effective interest method
This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument to the net carrying amount at initial recognition.

Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items, merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Appendix A

Glossary of Terms

Finance Lease

A lease that transfers substantially all the risks and rewards of ownership of a non current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Going Concern

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

Inventories

Comprise the value of items held in the following categories:

a) goods or other assets purchased for resale;
b) consumable stores;
c) raw materials and components purchased for incorporation into products for sale;
d) products and services in intermediate stages of completion;
e) long term contract balances; and
f) finished goods.

Investments

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria are classified as current assets.

Long Term Contracts

A contract entered into for the design, manufacture or construction of a substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts, if they are sufficiently material to the activity of the period.

Net Book Value

The amount at which non current assets are included in the balance sheet i.e. the historical cost or current value, less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the costs of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of a non operational asset), less any expenses incurred in realising the asset.

Appendix A

Glossary of Terms

Non Current Assets
Tangible assets that yield benefits to the Authority and the services it provides for a period of more than one year.

Non Operational Assets
Non current assets held by a Authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Lease
A lease other than a finance lease.

Operational Assets
Non current assets held and occupied, used or consumed by the Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Post Balance Sheet Events
Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Prior Year Adjustments
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

Prudence
The concept that revenue is not anticipated, but is recognised only when realised, in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Usable Reserves
Amounts set aside to meet future costs, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Unusable Reserves

Reserves that not available to spend; this category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

Annual Audit Letter

Tees Valley Combined Authority (and Group)

Year ended 31 March 2019

CONTENTS

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Tees Valley Combined Authority (the Authority) and Tees Valley Combined Authority Group (the Group) for the year ended 31 March 2019. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 16 December 2019 included our opinion that the financial statements: • give a true and fair view of the Authority's and Group's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19
Other information published alongside the audited financial statements	Our auditor's report issued on 16 December 2019 included our opinion that: • The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 16 December 2019 we reported to the group auditor in line with the requirements applicable to the Authority's/Group's WGA return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and Group and whether they give a true and fair view of the Authority's and Group's financial position as at 31 March 2019 and of its financial performance for the year then ended.

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

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

Our auditor's report, issued to the Authority on 16 December 2019, stated that, in our view, the financial statements give a true and fair view of the Authority's and Group's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Completion of our audit work was delayed this year due to complexities in the reporting and audit in one of the TVCA group components, which led to delays in the component auditor being able to finalise their audit work. We reported details in our Audit Completion Report to the Audit and Governance Committee and update letter in July 2019, in our verbal update to the Audit and Governance Committee in October 2019, and subsequent follow up letter in December 2019. We liaised with management and the component auditor throughout this time to try and resolve matters and conclude our work as soon as possible.

Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on approximately 2% of Gross Operating Expenditure at the surplus or deficit on provision of services level.	Authority: £1.763m Group: £1.865m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Authority: £52.9k Group: £55.9k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Related Party Transactions - Senior manager remuneration	 Authority and Group: £100k Authority £96k, Group £119k

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

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

Identified significant risk	Our response	Our findings and conclusions
Management override of controls (Authority and Group) In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our work provided the assurance we sought in each of these areas and did not highlighted any material issues.
Property, plant and equipment valuation (Group) The 2018/19 Group financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group PPE. The Authority engaged a valuation expert to provide information on valuations. There remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We therefore identified the revaluation of PPE to be an area of risk.	We relied on the work of the component auditor for TVCA Group's subsidiary; Goosepool Group (which incorporates Goosepool and DTVA), as well as our own audit of South Tees Development Corporation as the other TVCA Group component that included PPE valuations. This included consideration of experts used in both component audits. We considered the reasonableness of the chosen classification category of the PPE under the Cipfa Code for the TVCA Group statements, and undertook testing of the adjustment required to reclassify the PPE appropriately under the Code.	Our work on the TVCA Group statements, and the work undertaken in the individual component audits resulted in very significant amendments to the TVCA Group financial statements. All material issues were adjusted in the TVCA Group financial statements. After adjustment we were satisfied that we had obtained sufficient assurance over TVCA Group PPE valuations.
Defined benefit liability valuation (Authority and Group) The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO. We also considered national pensions issues arising.	Our work provided the assurance we sought and did not highlight any material issues. Our work identified no indication of material estimation error in respect of pensions.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

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

Description of deficiency	Loan agreements for the intra group loans between the Authority, South Tees Development Corporation, and South Tees Developments Limited were not signed until July 2019.
Potential effects	Lack of clarity about responsibilities and obligations between the different group organisations, including payment terms if signed agreements are not in place.
Recommendation	If funds are made available to other bodies in the group, this should be underpinned by formal agreements, which should be signed at the time the funds are released.
Management response	Although management in all organisations were aware of the conditions attached to the loans we recognise that formal documentation should be drawn up at the time of the agreement in order to formalise and document these terms. We will ensure in the future that all intra group loans are documented and formalised prior to the loan being actioned.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified

Our approach to Value for Money

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

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

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

Our auditor's report, issued to the Authority on 16 December 2019, stated that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	• Constitution in place which is available on the Authority's website, which includes financial regulations and Assurance Framework, Delegation to officers and Code of Conduct. • Strategic Economic Plan (SEP) 2016-2026 and Investment Plan for 2019-2029 in place, available on the Authority's website. • No data quality issues in respect of performance information we are aware of. • Management team in place. Audit and Governance Committee meets on a quarterly basis, and oversees internal and external audit, risk management and treasury management. • Medium term planning is undertaken and budget plans are in place; current Medium Term Financial Plan (MTFP) covers the period 2019/20 to 2022/23, and is updated at least annually. • Periodic reporting to Cabinet in the year. • Management assurance framework in place together with risk register. • Devolution deal Implementation Plan incorporates high level risks. • Internal Audit in place. • 2018/19 Annual Governance Statement produced and approved.	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	• MTFP in place for the period the period 2019/20 to 2022/23. • Nature of the Authority's funding and expenditure does not indicate any significant risk to achievement of strategic priorities in the short term. Potential Brexit risks being monitored. • Authority does not have any significant assets of its own and no items meet the capitalisation threshold and hence no Property, Plant and Equipment, and as such does not have an 'asset register', but does maintain a list of equipment, IT etc. Group assets are subject to separate arrangements at entity level. • Significant element of the Authority's funding is being used to deliver capital projects. These assets are however not held by the Authority. SEP and Investment Plan identifies future large scale capital schemes/priorities. • HR and payroll functions provided by Stockton BC and HR policies and procedures in place from creation. The Authority is continuing to review capacity as its responsibilities continue to further develop.	Yes
Working with partners and other third parties	• Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 Local Authorities in the Tees Valley and other public and private organisations. • Authority structure includes the Tees Valley Local Enterprise Partnership (LEP). LEP members are drawn from a wide range of other public bodies and private companies. • SEP, Investment Plan and website identify organisations that the Authority is working with in order to achieve its strategic priorities. • The Authority has written procedures for procuring products and services, which are within its Constitution (part 6).	Yes

Significant Value for Money risks

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

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

4. OTHER REPORTING RESPONSIBILITIES

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

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

Matters on which we report by exception

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

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

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 16 December 2019.

Other information published alongside the financial statements

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

5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, issued on 1 May 2019 and presented to Audit and Governance Committee at its next meeting in July 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£29,138*	£33,310**

* As reported in our Audit Strategy Memorandum.

** Subject to agreement by PSAA, and includes additional fees in relation to technical accounting issues from incorporating new group component in 2018/19, and dealing with technical errors and issues arising in draft statements related to the consolidation.

Fees for other work

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

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

The Authority will need to incorporate the outcome of the Spending Review, when undertaken, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Authority recognises the key issue is the planning and management of its finances to ensure it remains financially resilient and able to deliver its Investment Plan.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government (which includes the Corporation). A consultation has been undertaken to inform the direction and strategy for local government annual accounts, and we await its outcome.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Authority (including other components in the Group) will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

Next year's audit and how we will work with the Authority

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Authority by:

- continued liaison with the Authority's Internal Auditors to minimise duplication of work;
- attending Audit and Governance Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the Authority to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

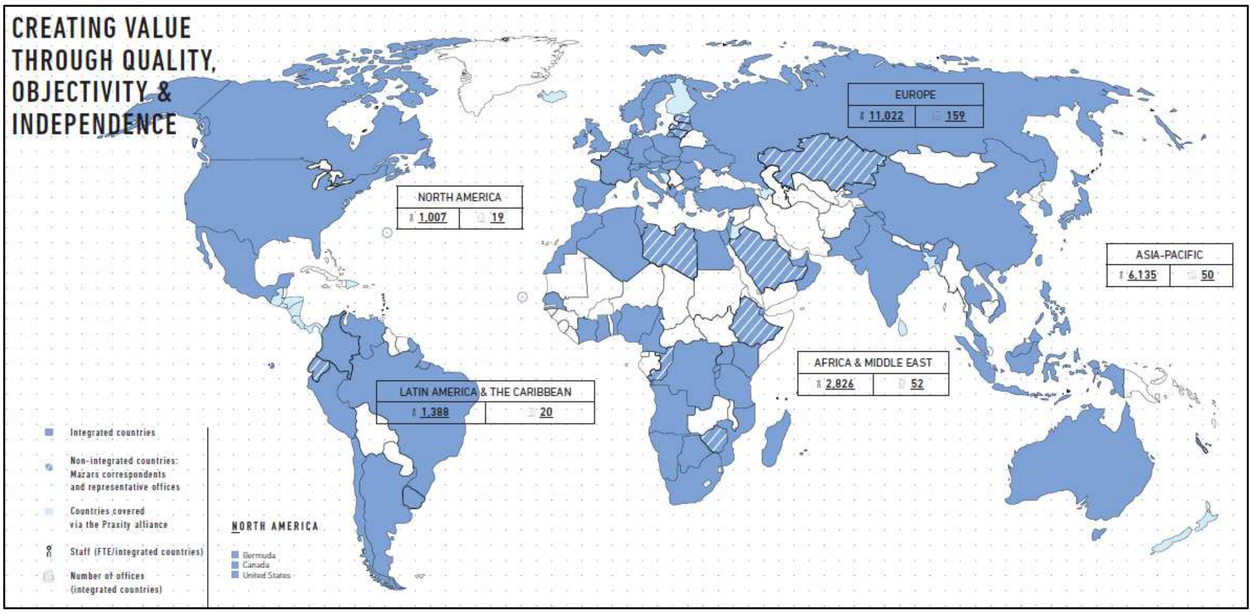
The Corporation has taken a positive and constructive approach to our audit and we wish to thank the Cabinet, Audit and Governance Committee members and officers for their support and co-operation during our audit.

MAZARS AT A GLANCE

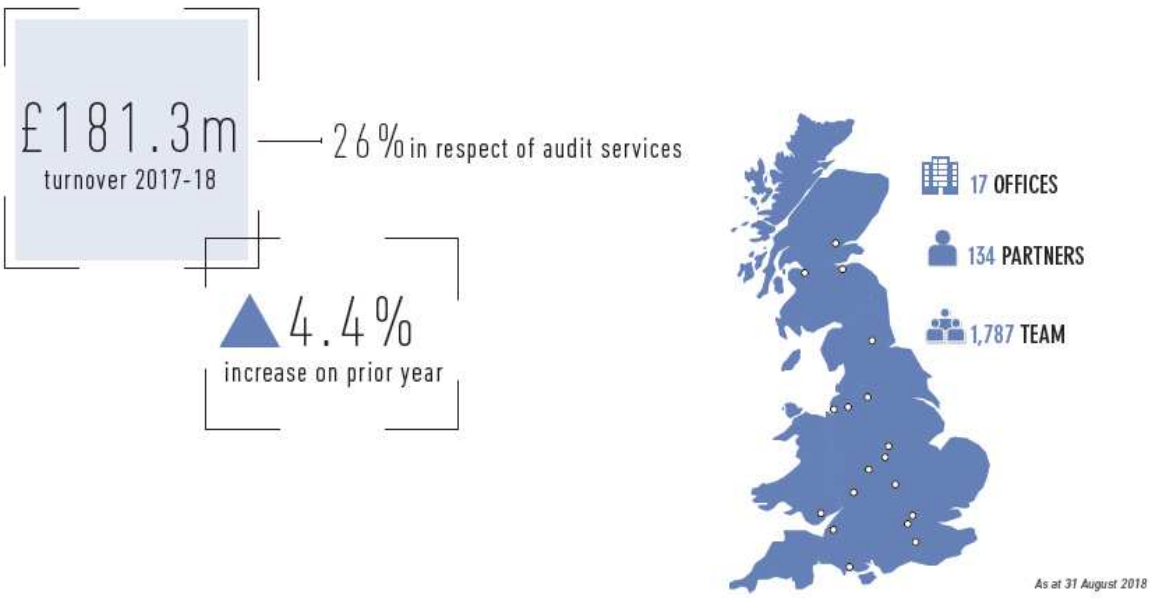
Mazars LLP

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

Mazars Internationally



Mazars in the UK



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MAZARS

AGENDA ITEM 7

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

JANUARY 23rd 2020

REPORT OF THE DIRECTOR OF FINANCE AND RESOURCES

CORPORATE RISK REGISTER

SUMMARY

This report presents the Tees Valley Combined Authority Corporate Risk Register as at January 2020. 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 January 2020. 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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TVCA Corporate Risk 2019/20 - Q2

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	Reasons for change since last quarter	Further Controls Required	Deadline	Comments	Review Date
C01	Failure to secure agreement on new future investment priorities. (INVESTMENT PLANNING)	• 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	Strategy & Investment Planning Director/ Chief Executive	• TVCA Cabinet has overall responsibility for developing & delivery of SEP, investment decisions and allocation of resources. • Proposals developed at early stage with Leaders & Mayor, LEP members, chief officers, partners and Government departments • Agreement to Investment Plan • Investment report on every Cabinet agenda as standing item • Additional EOIs reviewed as received • Oversight by TV Management Group • Quarterly performance reporting being developed • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19 • Assurance Framework agreed by Cabinet and submitted to Government - now adopted • New processes and delegations agreed and implemented • Investment Plan Review to go to Cabinet January 2020	5	2	10			On-going dialogue with Mayor and Leaders on the Investment Plan review		•New Assurance Framework sets out process for dealing with potential new projects.	Jan-20
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 •Increased funding to address economic shocks • Need to mobilise support to businesses and communities •Reduced Inward Investment activity •Loss of key businesses •Loss of jobs • Increased deprivation	Chief Executive/Strategy & Investment Planning Director/ Commercial & Delivery Director	• Ongoing engagement with Leaders & Mayor, Chief Officers and Government departments • Continuation of focus on TVCA delivery of objectives and SEP • Secured ESIF guarantee from Government • Engagement with Government on future funding plans post Brexit, including tracking progress with development of proposed UK Shared Prosperity Fund • Action plan agreed for utilising remainder of ESIF funding • Working with partners on proposals for current open call (closing Aug19) •Brexit Action Plan being prepared •Funding to support businesses being developed •Potential impacts being monitored •Joint LA and partner Brexit group established •LEP/Growth Hub business intelligence gathering and business engagement being undertaken •Use of the Get Ready campaign	5	4	20	↑8		• Liaison with other CAs/LEPs	Ongoing	Regular liaison with Government on progress with UK Shared Prosperity Fund.	Jan-20

TVCA Corporate Risk 2019/20 - Q2

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	Reasons for change since last quarter	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	Strategic & Investment Planning Director/ Finance & Resources Director/Chief Executive	• Robust Medium Term Financial Plan, Treasury Management Strategy and Investment Plan agreed by TVCA Cabinet • Submission of high calibre bids for external funding • Identifying opportunities for efficiency and greater impact • Ongoing review of EZ income potential • Ongoing review of commercial potential of individual projects and TVCA borrowing potential/limits • Ten Year Investment Plan 2019-29 agreed (including funding plan) • Regular meetings between Mayor and Government Ministers • Progress with external funding bids reported quarterly to TVMG	4	3	12			• Investments identified in Local Industrial Strategy need to feed into Investment Plan and other external sources • Tightening up bidding process - approval to bid and actual bid sign off		TVCA bids submitted to ERDF Open Calls	Jan-20
C04	Transport specific funding secured from government is not sufficient to meet TVCA programme aspirations eg significant local contributions sought that are not affordable and/or TCF not awarded on ongoing annual basis. (FINANCIAL)	• Not all planned transport projects can be delivered • Harder to leverage other funding • Reputational damage	Commercial & Delivery Director/ Head of Transport	• Transport programme going to Cabinet January 2020 • Programme shared with DfT • Reporting to DfT on progress with TCF spending/delivery • Ongoing liaison with DfT re specific projects eg New Tees Crossing, Darlington Northern Link Road, Darlington Station, Middlesbrough Station • Ongoing discussions with key partners eg Northern Rail, Train Operators, TfN & Highways England • Annual conversation with government • Briefing The Mayor to lobby Government	4	3	12	-					Jan-20

TVCA Corporate Risk 2019/20 - Q2

					Net Risk Score								
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Reasons for change since last quarter**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C05	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation. (FINANCIAL)	• Delay to delivery of STDC planned development • Potential effect on TVCA's other funding priorities • TVCA cannot itself meet funding requirements • Loss of potential inward investment into Tees Valley, and other opportunities to meet SEP objectives • Reputational damage	Chief Executive/ Director of Finance & Resources	• STDC established as legal entity 1st Aug 2017 • Official launch 23rd August 2017 • STDC Constitution requires significant financial matters to be referred to TVCA Cabinet • TVCA FD is also FD of STDC • STDC Board meeting regularly • Continued dialogue with Government • £123m funding secured in 2017 Budget • £14m in 2018 budget • CSR Business Case to HMG 2019 • New Chief Exec of STDC recruited •New STDC structure proposals to enhance operational capacity/capability	4	4	16					Budget expected late October/early November and allocation expected to be announced	Jan-20
C06	Obligations undertaken by STDC have potential financial impact on TVCA	• Strain on TVCA funding availability • Potential effect on other TVCA funding programmes • Reputational damage	Director of Finance & Resources	• STDC Constitution requires significant financial matters to be referred to TVCA Cabinet • TVCA FD is also FD of STDC •Development of a STDC programme management structures • Aligning STDC reporting updates with TVCA •New STDC structure proposals to enhance operational capacity/capability	4	2	8						Jan-20
C07	Failure to provide sufficient capacity to deliver TVCA functions. (DELIVERY)	• Delays in terms of TVCA business being transacted, decisions being made and funding being defrayed • Potential loss of investment into Tees Valley • Delays in achieving SEP and Investment Plan outputs and outcomes • Potential effect on ability to bid credibly for additional funding • Key staff may decide to leave organisation • Reputational damage	Chief Executive	• Oversight by Senior Management Team •Reviews bieng implemented •Recruitment under way in key areas (eg AEB devolution) •Further reviews as part of annual medium term financial plan to go to January Cabinet	4	3	12	-					Jan-20

TVCA Corporate Risk 2019/20 - Q2

					Net Risk Score								
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Reasons for change since last quarter**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C09	Failure to build and maintain relationships with key partners. (REPUTATIONAL)	• Potential impact on LEP and its operation • More difficult to maximise opportunities to access significant external funding which requires a partnering approach • Delays to agreement and delivery of Investment Programme • Risk to achievement of SEP targets and outcomes • Reputational damage	Chief Executive/ Senior Leadership Team	• Regular Cabinet meetings (including LEP Board members) •Regular portfolio holders meetings and briefings • Directors/Heads meeting LA officers regularly • MOU agreed with Teesside University • Regular liaison with other key partners eg. CPI, MPI, TWI, Digital City • Regular liaison with other key government agencies (and others) eg. Homes England, Highways England, HLF, Arts Council, BLF, TfN etc • Perception study undertaken • Revised Assurance Framework sets out role for Management Group - consultee in Chief Exec's delegation	4	2	8	-					Jan-20
C10	Uncertainty within the economy and/or the political environment (DELIVERY)	• Potential delay to agreement of TVCA priorities and approval of any additional funding • Potential delay in delivering SEP targets and outcomes • Reputational damage	Chief Executive	• Engagement with local MPs • Engagement with local authorities	4	3	12	-		• Engagement with national parties	Ongoing		Jan-20

TVCA Corporate Risk 2019/20 - Q2

					Net Risk Score								
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Reasons for change since last quarter**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C11	Failure to pass the first Gateway Review. (FINANCIAL) See sub risks A & B below	• Inability to deliver Ten Year Investment Plan and strategic investments and achieve SEP outcomes • Increased workload/resources required to address issues • Risk to future funding of organisation • Significant reputational damage	Strategy & Investment Planning Director/Finance & Resources Director	• Bi-monthly meeting with Government officials and on-going dialogue • Assurance framework (monthly conversation with BEIS) • Internal Audit arrangements • Annual conversations with Government • Mayor meets with Government Ministers • Funding cannot progress to final approval unless it meets the Assurance Framework process. • Staff trained on the Assurance Framework to ensure it is being adhered to • Tees Valley baseline prepared by SQW • Evaluation plan agreed between SQW, Tees Valley & government	5	2	10	↓5	Progress made with SQW	• Quarterly reporting to Cabinet on Investment outputs and outcomes to be introduced • Annual Review to be undertaken	Oct-19 Mar-20		Jan-20
C11-A	• Failure to deliver the existing pipeline of funding commitments and achieve targeted spend. (DELIVERY)	• Impacts TVCA's reporting on progress to Government • Adverse effect on 5 year Government conversation & ability to bid successfully for other funding • Failure to achieve SEP targets and outcomes • Reputational damage	Strategic Investment Planning Director/Commercial & Delivery Director/Finance & Resources Director	• Creation and utilisation of Advanced Funding to provide upfront investment in feasibility work • Programme monitoring and review • Assurance Process in place • Investment Plan Risk Register operational • Regular Investment Panel meetings • Regular liaison with BEIS • Monthly spend reviews in place • Ten Year Investment Plan 2019-29 agreed by Cabinet Jan19 • Revised Assurance Framework in place • Quarterly review of progress against internal business plan targets • Investment Plan delivery progress reported to Cabinet quarterly •Investment Plan Review to go to Cabinet January 2010	5	2	10	-					Jan-20

TVCA Corporate Risk 2019/20 - Q2

					Net Risk Score								
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Reasons for change since last quarter**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C11-B	Failure to manage funding in order to deliver maximum value for money. (FINANCIAL)		Strategic Investment Planning Director/ Director of Finance & Resources	• Revised Assurance Framework approved by Cabinet on 15th March and submitted to Government	4	2	8	-		• Review to ensure appropriate development, appraisal and assurance processes are operating effectively and efficiently • Staff briefing sessions on the whole process	Sep-19		Oct-19
C12	Failure to detect fraud. (FINANCIAL)	• Loss of funds that cannot be recovered and applied to required spend objectives • Staff resources required to manage any instances • Reputational damage	Director of Finance & Resources	• Internal audit arrangements • External audit arrangements • Internal expenditure approvals process • Assurance Framework for Investment • Review of internal expenditure process undertaken • Staff induction process	5	2	10	-		• Review need for particular controls on specific new funding programmes • Investment Plan shared and developed with Directors	Ongoing		Oct-19
C13	Failure to properly manage AEB Budger	• Reduction in availability of skills training in the region. •Financial impact on FE priorities	Head of Education, Employment & Skills	• TVCA Cabinet approves annual allocation • Monthly submissions by providers are monitored • Regular meetings with providers • Regular update to directors, Management Group & Cabinet	4	2	8	-	New Risk		Ongoing		Jan-20
C14	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed. (REPUTATIONAL)	• Confusion is possible in terms of relations with partners, businesses and residents • Reputational damage	Head of Communication	• Head of Communication & Marketing appointed • Communications plan in place • Regular liaison with Mayor's office on Comms issues & opportunities • Communications Strategy agreed	3	3	9	-					Jan-20

TVCA Corporate Risk 2019/20 - Q2

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Reasons for change since last quarter	Further Controls Required	Deadline	Comments	Review Date
C15	Senior Officers leave the organisation. (DELIVERY)	• Insufficient senior resource to lead and manage the workload over a critical period • Delays to delivery of Investment Programme • Risk of not delivering against SEP targets and outcomes • Loss of confidence by Government funding departments • Resource not available to lead on funding bids • Reputational damage • Reduction in TVCA team morale	Chief Executive	• Regular SLT meetings • Regular management one to ones •Director of Finance & Resources appointed • Director Business & Skills appointed	2	4	8	-					Jan-20
C16	Failure to agree a Local Industrial Strategy with Government. (REPUTATIONAL)	• Failure or delay causes reputational damage • Potential impact on ability to bid for national funding • Potential impact on regeneration of STDC site • Potential impact on SEP delivery as a consequence	Strategy & Investment Planning Director	• Detailed timetable in place for the Local Industrial Strategy is being undertaken • Partners to support development of Local Industrial Strategy identified • Engagement events held with key sectors in Jan19 • Thematic engagement events Feb19 • Workshops with LEP and Leaders May19 • Publication put on hold but ongoing dialogue re: Government committments to continue	4	3	12	↑4	•Publication delayed due to Brexit/no urgency re: British Steel/lack of Government commitments in the document	• Comms engagement to be planned			Jan-20
C17	Failure to operate within TVCA constitution. (LEGAL)	• TVCA decisions are ultra vires • Risk of legal challenge, leading to delay to delivery of TVCA programme(s) and costs • Reputational damage	Chief Executive/ Monitoring Officer	• Updates and reports to TVCA Cabinet • Briefing and engagement with Constituent Authorities' members • Public Consultation undertaken • A&G Committee in place and meeting regularly • O&S Committee in place and meeting regularly • Additional independent members recruited to A&G Committee • Involvement of Monitoring Officer at Cabinet and in review of papers/decisions • Legal & Commercial Manager in post	5	1	5	-					Jan-20

TVCA Corporate Risk 2019/20 - Q2

					Net Risk Score								
Ref	Risk description/ Category	Consequences	Owner	Current Controls	Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Reasons for change since last quarter	Further Controls Required	Deadline	Comments	Review Date
C18	Failure to maximise influence at regional/national level. (REPUTATIONAL)	• Missed opportunities to influence national and regional agendas to benefit Tees Valley • Potential impact on ability to bid for and get additional funding • Potential impact on delivery of SEP	Chief Executive/ Strategy & Investment Planning Director	• LEP Meetings • LEP Network representation • Mayoral role • Membership of Transport for the North • Membership of NP11 • Maintaining key relationships (see C09 above) • MCA network influencing Government	2	2	4	-					Jan-20
C19	Failure to operate DTVA successfully and turn around operation. (DELIVERY)	• Reputational damage • Increased financial liabilities (see C17) • Impact on economic growth potential	Chief Executive/Commercial & Delivery Planning Director	• Strategic partnership joint venture with Stobart Aviation • 5 year Business Plan agreed annually • Agreed governance arrangements • Monitoring & reporting to DTVAL & Goosepool ltd Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny •Goosepool Executive Director overseeing TVCA investment	4	2	8	-					Jan-20
C20	More TVCA investment required for DTVAL than is foreseen in Business Plan. (FINANCIAL)	• Increased financial liabilities • Impact on other projects/programmes	Chief Executive/ Finance Director	• Strategic partnership joint venture with Stobart Aviation • 5 year Business Plan agreed annually • Agreed governance arrangements including Executive Meetings • Monitoring & reporting to DTVAL & Goosepool ltd Boards • TVCA oversight and Scrutiny via Cabinet and Overview & Scrutiny • Goosepool Executive Director overseeing TVCA investment	4	2	8	-					Jan-20

TEES VALLEY COMBINED AUTHORITY

Internal Audit Progress Report

Audit and Governance Committee

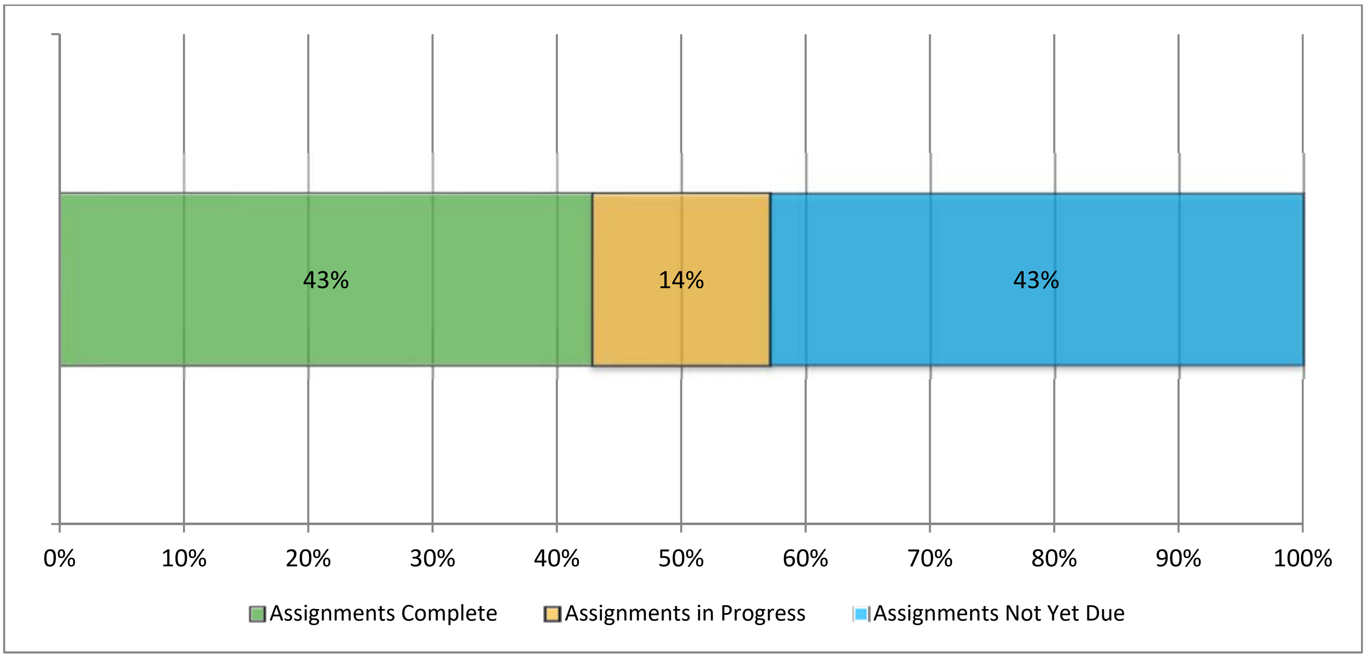
23 January 2020

CONTENTS

1 INTRODUCTION

The internal audit plan for 2019 / 2020 was approved by the Audit and Governance Committee on 24 July 2019.

The graphic below provides a summary update on progress against the 2019 / 2020 plan.

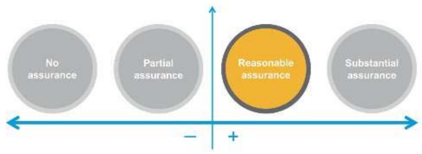


2 REPORTS CONSIDERED AT THIS AUDIT AND GOVERNANCE COMMITTEE

This table informs of the audit assignments that have been completed since the last Audit and Governance Committee held.

We have finalised two reports since the previous meeting and these are detailed in the table below.

Appendix A also details the full history of the audits completed in 2019 / 2020.

Assignments	Status	Opinion issued	Actions agreed		
			L	M	H
General Data Protection Regulation (GDPR) Governance	Final	No opinion provided.	10 uncategorised management actions		
Procurement	Final		1	3	0

2.1 Impact of findings to date

The Audit and Governance Committee should note that the assurances given in our audit assignments are included within our Annual Assurance Report. In particular, the Audit and Governance Committee should note that any negative assurance opinions will need to be noted in the annual report and may result in a qualified or negative annual opinion.

2.2 Audit findings summary

General Data Protection Regulation (GDPR) Governance

Objective of the area under review

Measures have been taken to ensure that the organisation is compliant with the General Data Protection Regulation.

Impact of findings to date

Conclusion: n/a

Impact on annual opinion: positive

As a result of testing undertaken 10 management actions were identified and management actions agreed for all.

The areas considered as part of the GDPR Governance were:

- Business processes and data discovery;
- Third parties;
- Data ownership;
- Data security system level controls;
- Data storage and retention;
- Awareness;
- Data policy, roles and responsibilities;
- Individuals' rights;
- Consent; and
- Data breaches.

Procurement

Objective of the area under review
To ensure the Authority's expenditure is undertaken in accordance with its Constitution, Public Procurement and European regulations.

Impact of findings to date

Conclusion: positive assurance

Impact on annual opinion: positive

As a result of testing undertaken **three medium** and **one low** priority findings were identified and management actions agreed for all.

The three medium agreed actions related to:

- The Authority currently has no procurement strategy in place. Through inspection of documentation from other combined authorities, we noted a procurement strategy was in place.
- We understand that a process of reporting upcoming expected project expenditure to the Senior Leadership Team (SLT) was undertaken in August 2019. Prior to this, there was no framework with which to inform procurement of upcoming projects. Through discussion with the Legal and Governance Lead, we understand that this has been the first step toward a more structured process of procurement planning.
- For a sample of four call off framework procurements and four instances of single tenders, we were unable to obtain the following documents/approvals:
  - In one case of 'single tender' procurement, we were able to obtain the 'direct award of a contract form' but were unable to verify whether the 'contract justification form' had been approved prior to the procurement process taking place due to the document not being held in procurement records.
  - In one case of 'call off a framework' procurement, we were able to verify that the 'contract justification form' had been appropriately completed and signed off, however we were unable to verify whether the award of contract had been appropriately signed off due to the completed document not being retained by the procurement team.
  - In one case of 'call off a framework' procurement, we could not obtain evidence of a signed 'contract justification form' and 'direct award of a contract form'.

3 LOOKING AHEAD

Assignment area	Status	Target Audit and Governance Committee meeting
Declaration of Interests	Fieldwork completed weekending 10 January 2020 **Draft report issued**	28 May 2020
Cyber Security	Fieldwork scheduled to take place week commencing 20 January 2020	28 May 2020
Programme / Project Delivery	Fieldwork scheduled to take place week commencing 2 March 2020	28 May 2020
Follow Up of Previous Internal Audit Recommendations	Fieldwork scheduled to take place week commencing 30 March 2020	28 May 2020

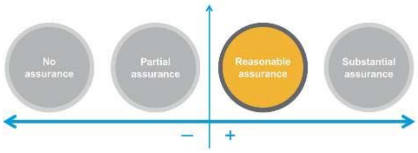
4 OTHER MATTERS

4.1 Key performance indicators (KPIs)

Delivery	Target	Actual	Quality	Target	Actual
Draft reports issued within 10 working days of debrief meeting	10 working days	*6 working days*	Conformance with PSIAS and IIA Standards	Yes	*Yes*
			Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	*As and when required*
Final report issued within 3 working days of management response	3 working days	*1 working day*	% of staff with CCAB/CMIIA qualifications	>50%	*66% ytd*
Follow up of internal audit recommendations	Yes	*Planned for March 2020*	Response time for all general enquiries for assistance	2 working days	*1 working days*
			Response for emergencies and potential fraud	1 working days	*N/A*

APPENDIX A: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

Reports previously seen by the Audit and Governance Committee and included for information purposes only:

Assignment	Opinion issued	Actions agreed		
		L	M	H
Risk Management		5	3	0

FOR FURTHER INFORMATION CONTACT

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TEES VALLEY COMBINED AUTHORITY

Procurement

DRAFT

Internal audit report: 3.19/20

15 November 2019

CONTENTS

Debrief held	7 November 2019	**Internal audit team**	Robert Barnett, Head of Internal Audit Philip Church, Client Manager Gregory Barnett, Senior Internal Auditor
Draft report issued	15 November 2019		
Responses received			
Final report issued		**Client sponsor**	Gary Macdonald, Director of Finance and Resources
		Distribution	Gary Macdonald, Director of Finance and Resources

1 EXECUTIVE SUMMARY

1.1 Background

As part of the approved internal audit plan for 2019 / 2020, we reviewed the control environment surrounding the direct procurement activities conducted by the Tees Valley Combined Authority ('Authority').

The Authority is a partnership of five local authorities: Middlesbrough, Hartlepool, Darlington, Stockton-on-Tees and Redcar and Cleveland, and focus on the development of transport, infrastructure, skills, business investment, housing, and culture and tourism in the Tees Valley region.

Developments / projects are primarily funded by the Authority through two methods:

- Grant funding issued to local authorities/organisations for expenditure on specific projects. In such cases, a business case must be submitted and approved by the Authority Cabinet. This method will not be considered as part of this review.
- Direct procurement where the Authority manages the project (e.g. purchase of Tees Valley International Airport) or where consultancy services are required prior to proceeding with a project (e.g. legal advice or due diligence). Projects are generally not coordinated by the Authority therefore the majority of direct procurement is used for consultancy fees.

The purchasing team consists of one full time Procurement and Project Coordinator, who is overseen by the Legal and Governance Lead.

There are three primary routes through which procurement is undertaken, which were covered within this review:

- Request for Quotation (RFQ), where a project is advertised, and suppliers submit tender proposals for the work. Tenders are scored determined on price and quality and the highest scoring supplier is awarded the contract. While this route is manually intensive for the procurement team, it provides the most transparent route to appointment and typically provides the best value for money.
- Single tender appointment, where the contract is awarded directly to a supplier. Due to the reduced transparency and value for money implications through directly awarding contracts, these appointments must be approved by the Director of Finance and Resources and risk assessed by the Legal and Governance Lead.
- Call off a framework, where based on the work required for a project, a framework operator provides a list of suitable vetted suppliers and 'day rates' are quoted. Best value for money can be achieved through 'mini competitions' between suppliers listed on the framework to obtain the best quality service/product. However direct appointments are permitted within frameworks. In such cases, the approval process for the single tender appointments must be followed.

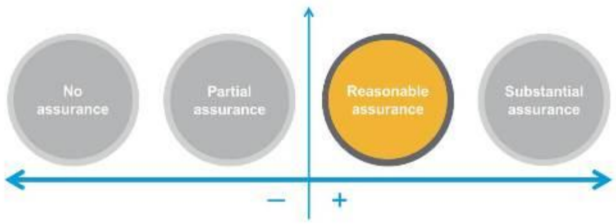
1.2 Conclusion

Based on testing conducted within this review, the Authority can take only **reasonable assurance** regarding the control environment surrounding direct procurement.

We believe that if regular forward planning is conducted for procurement requirements, this will reduce the occurrence for instances of urgent procurement needs. With the additional preparation time, the RFQ process will be available rather than single tender appointments, enhancing value for money achieved and transparency of supplier selection.

We noted five areas for improvement for which we have raised **four medium** and **one low** risk management action. Details of these management actions can be found within section two of this report.

Internal audit opinion:
Taking account of the issues identified, the Cabinet can take **reasonable assurance** that the controls in place to manage this area are suitably designed and consistently applied.
However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area.



1.3 Key findings

The key findings from this review are as follows:

- We confirmed that an Investment Plan covering 2019 / 2029 had been presented to and approved by the Authority Cabinet on 24 January 2019. Record of this was publicly available through the Authority website.
- To verify whether the contract register available through the TVCA website mirrored the Contracts Finder government website, we filtered the register to include only contracts which had been awarded in the past 12 months, were unrelated to the South Tees Development Corporation and contract value was valued at over £25,000. These contracts should be listed on the Contracts Finder website.

  From a population of 17 contracts, we selected a sample of five and noted that for all five contracts sampled, the opportunity had been posted on the Contracts Finder website. We further confirmed that the successful contractor as per listed on the TVCA contract register had been disclosed on Contracts Finder and that the listed contract value matched the value listed on the contracts register, to within £1,000.

- We selected a sample of four RFQ procurements and confirmed the following:
  - A ‘justification of contract’ form had been appropriately completed, signed off and retained by the procurement team;
  - An ‘award of contract’ form had been appropriately completed, signed off and retained by the procurement team;
  - The weighted scoring system had been used and the supplier with the highest score had been selected;
  - For a sample of one unsuccessful supplier, a feedback letter had been provided through the NEPO (North East Procurement Organisation) portal and confirmed that the letter had been read through read receipts.

    In one case, there was only one supplier which tendered for the project, therefore no rejection letters were applicable.

We noted the following opportunities for improvement:

- The Authority currently has no procurement strategy in place. Through inspection of documentation from other combined authorities, we noted a procurement strategy was in place. Through discussion with the Legal and Governance Lead, we understand that the Authority can benefit from the introduction of a procurement strategy, particularly with regard to enforcing social values in the procurement process. **(Medium)**
- We understand that a process of reporting upcoming expected project expenditure to the Senior Leadership Team (SLT) was undertaken in August 2019. Prior to this, there was no framework with which to inform procurement of upcoming projects. Through discussion with the Legal and Governance Lead, we understand that this has been the first step toward a more structured process of procurement planning.

  We understand that, led by the Procurement and Projects Coordinator, monthly catch up meetings will be held between procurement and Directors/Heads of Service to enable better planning within the procurement process.

Resulting from these regular meetings, a procurement forward plan will be drafted and presented to the SLT on a monthly basis, with the plan covering the coming three months. This will enable more thorough and informed procurement while reducing the occurrences of urgent single tender agreements being made. **(Medium)**

- For a sample of four call off framework procurements and four instances of single tenders, we were unable to obtain the following documents/approvals:
    - In one case of 'single tender' procurement, we were able to obtain the 'direct award of a contract form' but were unable to verify whether the 'contract justification form' had been approved prior to the procurement process taking place due to the document not being held in procurement records.
    - In one case of 'call off a framework' procurement, we were able to verify that the 'contract justification form' had been appropriately completed and signed off, however we were unable to verify whether the award of contract had been appropriately signed off due to the completed document not being retained by the procurement team.
    - In one case of 'call off a framework' procurement, we could not obtain evidence of a signed 'contract justification form' and 'direct award of a contract form'. **(Medium)**

For more detail, please see section two of this report.

1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
Procurement	0	(5)	4	(5)	1	3	0
Total					**1**	**3**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

1.5 Additional feedback

Through discussion with the Legal and Governance Lead during the first day of this review, we noted that the following two lines of the agreed audit scope were not applicable:

- Authority spend by supplier is analysed to inform future contract / framework arrangements; and
- Reporting on procurement through the Authority's governance structure.

We confirmed with the Director of Finance and Resources to exclude these two items from the scope of our testing. Through discussion, we understand that conducting these tasks would neither be beneficial nor commensurate due to the nature of direct procurement conducted by the Authority. As mentioned within section 1.1 of this report, the majority of direct procurement conducted is for ad-hoc occasional projects or consultancy fees. If no grant funding were issued and all projects were coordinated centrally by the Authority, performance of these controls would be necessary.

To utilise the remaining available time, we were specially requested to investigate the level at which the Authority understands the procurement arrangements of the organisations who receive grant funding. We understand that our attention should be focussed upon the non-local authority grant recipients.

As this work is additional and not listed on the agreed scope of this procurement review, this acts as a factual statement of testing performed, and does not result in an expression of opinion or corresponding level of assurance.

To gain a greater understanding of the processes in place, we obtained a list of all projects/programmes which have been grant funded that are either in delivery or have been completed. From a sample of 36 projects, we selected a notional sample of two which were not delivered by local authorities. The projects included:

- National Horizons Centre (NHC) lead by Teesside University; and
- MPI – Open Access & Innovation Centre lead by the Materials Processing Institute.

For the first sample (NHC) we noted that the business case and due diligence submission had been appraised by a firm of chartered surveyors, Sanderson Weatherall in October 2017. Through inspection of the detailed appraisal, we confirmed that the appraiser rated the procurement function of Teesside University as ‘satisfactory’ with reliance placed upon being OJEU compliant due to the scale of the organisation.

For the second sample (MPI), we once again noted that the business case and due diligence submission had been appraised by Sanderson Weatherall in January 2015. We noted the procurement function of MPI was rated as ‘satisfactory with conditions’ and the appraiser proposed the conditions which Tees Valley Unlimited should proceed with. Tees Valley Unlimited was the precursor to becoming the Tees Valley Combined Authority.

2 DETAILED FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
Area: Procurement								
1	An Investment Pan, covering the upcoming 10 years is published on an annual basis and approved for circulation by the Authority Cabinet. There is a Procurement Strategy in place, which is aligned to the Investment Plan.	Yes	No	Through inspection of the Authority Cabinet section of the TVCA website, we verified that the Investment Plan covering 2019-29 had been drafted and presented at a special meeting held on 24 January 2019. Through inspection of Cabinet minutes from 24 January 2019, we noted that under item 57/18, the Investment Plan had been unanimously approved by the Cabinet. We noted that within the minutes, there was a disclaimer that "These	Medium	The Legal and Governance Lead will investigate whether the other combined authorities based in the UK have a procurement Strategy. Using these as a guide, a procurement strategy will be drafted, ensuring the social values goals are included, and the strategy is aligned with the Investment Plan.	31 December 2019	Legal and Governance Lead

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				minutes are in draft form until approved at the next Cabinet meeting and are therefore subject to amendments." We followed this through to the subsequent Cabinet meeting on 31 January 2019 and noted within the minutes that under item 59/18, the draft minutes had not been presented for approval due to the close proximity of the two meeting dates. Instead, the draft minutes from 24 January 2019 would be presented at the next Cabinet meeting. Through inspection of the subsequent Cabinet meeting minutes from 15 March 2019, we confirmed that under item 72/18, the following was stated: "RESOLVED that the minutes of the meetings held on 24 January 2019 and 31 January 2019 be confirmed and signed as a correct record." As all the board papers and Cabinet minutes were publicly available online, we confirmed the decision-making and approval process was clear and transparent.		The draft strategy will be approved at an appropriate level then circulated.		

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				Procurement Strategy We noted that the Authority currently has no procurement strategy in place. Through inspection of documentation from other combined authorities, we noted a procurement strategy was in place in each case. Through discussion with the Legal and Governance Lead, we understand that the Authority can benefit from the introduction of a Procurement Strategy, particularly with regard to supporting social values in the procurement process. Without this strategy, there is a risk of reduced clarity with the aims and intentions of effective and efficient procurement within the Authority.				
2	The Procurement team are informed of upcoming planned expenditure on a periodic basis. The procurement forward plan is presented to the Senior Leadership Team on a regular basis	Yes	No	We understand that a process of reporting upcoming expected project expenditure to the Senior Leadership Team (SLT) was undertaken in August 2019. Prior to this, there was no framework with which to inform procurement of upcoming projects. We noted that on 13 August 2019, an email was circulated to the	Medium	Overseen by the Legal and Governance Lead, the Procurement and Project Coordinator will hold regular meetings with relevant Directors and Heads of Service for procurement planning purposes. Using intelligence gained through these meetings,	31 January 2020	Legal and Governance Lead

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				Authority Directors and Heads of Service requesting details of any upcoming procurement requirements over the coming three months to be sent to the Procurement and Project Coordinator. In September 2019, a subsequent procurement forward plan was created and presented to the SLT on 2 September 2019. Through inspection of SLT meeting minutes, we verified the plan was presented by the Legal and Governance Lead then discussed as per recorded under item five. No further iterations of the procurement forward plan have been presented since. Through discussion with the Legal and Governance Lead, we understand that this has been the first step toward a more structured process of procurement planning. We understand that, led by the Procurement and Projects Coordinator, monthly catch up meetings will be held between procurement and Directors/Heads of Service to enable better planning within the procurement process. Resulting from these regular meetings, a procurement forward		a procurement forward plan will be drafted on a monthly basis, covering the expected procurement requirements for the coming three months. The procurement forward plan will be presented at and discussed by the SLT on a monthly basis, and discussion will be recorded within meeting minutes.		

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				plan will be drafted and presented to the SLT on a monthly basis, with the plan covering the coming three months. This will enable more thorough and informed procurement while reducing the occurrences of urgent single tender agreements being made. If insufficient forward planning is conducted for procurement purposes, there is an increased risk of urgent purchases being required, reducing the transparency and value for money opportunities as per available through the standard tender process.				
3	There are three routes of procurement: • Single tender; • Call off framework; and • Request for quotation. Each item of procurement must have been approved at an appropriate level through the completion of an approved Direct	Yes	No	We obtained a copy of the contracts register available through the TVCA website and filtered to include only contracts which were awarded within the past 12 months and were not associated with the South Tees Development Corporation. From a population of 27 contracts, we selected the following sample: • Four samples from six instances of call off framework procurement;	Medium	As part of the procurement process, the Procurement and Project Coordinator will ensure that copies of the relevant signed documents are held. Documents include: • Justification of Contract form; • Direct Award of a Contract form; or • Award of a Contract form	31 January 2020	Legal and Governance Lead

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	Award of Contract Form.			• Four samples from 13 instances of Request for Quotation; • Four samples from eight instances of single tenders. **Single tender route** Single tender procurement appointments are permitted in certain but not all circumstances e.g. The requirement is urgent, one contractor being innately superior etc. In cases where the single tender route is used, a 'Contract Justification Form' must be completed and signed by the relevant director and the Director of Finance and Resources prior to starting the procurement process. As there is often a supplier in mind when opting to follow the single tender route, a 'Direct Award of a Contract Form' must be completed and signed by the Director of Finance and Resources. The Legal and Governance Lead must also sign off on the purchase, assessing the risk posed through directly awarding the contract and verify the reason as to why the single tender procedure is applicable.		Possession of these documents will be checked prior to the supplier being contacted with a notification of successful tender.		

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				For three of the sample of four single tenders as per listed above, we confirmed that appropriately completed 'Contract Justification Forms' and 'Direct Award of a Contract Forms' were completed and retained by the procurement team. In the final one case, we were able to obtain the 'Direct Award of a Contract Form' but were unable to verify whether the 'contract justification form' had been approved prior to the procurement process taking place due to the document not being held in procurement records. **Call off Framework route** Procurement can be undertaken through a framework, which is an agreement put in place with a range of providers that enables buyers to place orders for services without undertaking the full tendering process. TVCA can use a variety of framework providers including but not limited to the Crown Commercial Service, Bloom etc. Through a framework, direct appointments are permitted from a pool of pre-vetted suppliers using				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				"day rates" as per quoted within the framework. It is good practice to hold 'mini competitions' of framework providers to ensure the quality of the service delivered for the specific project, however these are not mandatory. If a call off framework supplier is directly appointed, the same forms must be completed as per the single route. For two of the four samples of 'call off framework' procurements mentioned above, we noted these were both direct awards. We therefore confirmed that in both cases, appropriately completed and signed 'Contract Justification Forms' and 'Direct Award of a Contract Forms' were retained by the procurement team. For one of the samples, we were able to verify that the 'Contract Justification Form' had been appropriately completed and signed off, however we were unable to verify whether the award of contract had been appropriately signed off due to the signed document not being held within procurement. For the final sample, we did not obtain evidence of signed 'Contract				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				Justification Forms' and 'Direct Award of a Contract Forms' due to the signed document not being held within procurement. The two outliers in question totalled expenditure of £361,807 and were for consultancy fees relating to the purchase of Teesside International Airport. We understand that due to time restraints imposed by the airport owner, the acquisition of these services required to be expedited. If the process of retaining internal approvals within the procurement process is not upheld, there is a risk of impaired transparency regarding whether procurement projects have been appropriately authorised. **Request for Quotation (RFQ) route** The RFQ route is the most common source of procurement at the Authority with 13 of the 27 samples undergoing this route. Where TVCA wish to procure a service through the RFQ route, the opportunity is uploaded and released through the North East Procurement Organisation (NEPO) portal.				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				The RFQ is live for a predetermined length of time where suppliers submit their tenders through the NEPO portal. Using the weighted tender scoring system used at the Authority, each tender is rated based on the proposed quality and price for the project. The supplier with the highest weighted score is offered the contract and a letter of success is uploaded to the NEPO. For each unsuccessful supplier, a feedback letter is drafted, including feedback as to how they scored compared to the successful bidder. The letter is communicated through the NEPO portal, which supports read receipts. Prior to an RFQ being created, a ‘Contract Justification Form’ must be completed and approved (according to the single tender/call of a framework route). Where a successful applicant is chosen, a ‘Contract Award Form’ must be signed by the relevant Authority director and the Director of Finance and Resources.				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				For the four RFQ samples mentioned above, we confirmed the following: • A 'Justification of Contract' form had been appropriately completed, signed off and retained by the procurement team; • An 'Award of Contract' form had been appropriately completed, signed off and retained by the procurement team; • The weighted scoring system had been used and the supplier with the highest score had been selected; • For a sample of one unsuccessful supplier, a feedback letter had been provided through the NEPO portal and through read receipts, confirmed that the letter had been received by the supplier. ○ In one case, there was only one supplier which tendered for the project, therefore no rejection letters were applicable.				
4	A register of contracts over the value of £15,000 are maintained and made publicly available through the	Yes	No	We obtained a copy of the contracts register available through the TVCA website, noting that the register had	Low	The Procurement and Project Coordinator will ensure that the "awarded date" disclosed through the contracts register	31 January 2020	Legal and Governance Lead

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	Tees Valley Combined Authority website. Details of contracts exceeding £25,000 are also available through the Government platform, Contracts Finder.			last been updated on 28 October 2019. As part of the audit planning for this review, we obtained a copy of the most current register which at the time had last been updated on 24 September 2019, establishing that the register is updated on a regular basis. To verify whether the contract register available through the TVCA website mirrored the Contracts Finder Government website, we filtered the register to include only contracts which had been awarded in the past 12 months, were unrelated to the South Tees Development Corporation and contract value was valued at over £25,000. These contracts should be listed on the Contracts Finder website. Through discussion with the Procurement and Project Coordinator, we understand that the nationally agreed limit for contract disclosure is £25,000, however the TVCA has adopted the limit of £15,000 to enhance transparency. Whereas Contracts Finder will only permit contract to be entered with estimated values over £25,000.		matches the date at which the contract was signed by both parties. To rectify any relevant inaccuracies, the Procurement and Project Coordinator will reconcile the list of active contracts back to their signed agreement and update the “Awarded date” data field accordingly.		

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				From a population of 17 contracts, we selected a sample of five with the aim to verify whether the opportunity had been posted on Contracts Finder and whether the posting disclosed the successful appointed supplier. For all five contracts sampled, we confirmed that the opportunity had been posted on the Contracts Finder website. We further confirmed that the successful contractor as per listed on the TVCA contract register had been disclosed on Contracts Finder and that the listed contract value matched the value listed on the contracts register, to within £1,000. **Accuracy of data within the Contract Register** Within the contract register available through the TVCA website, there are three dates disclosed for each contract: • Start date; • End date; • Awarded date. Through testing for the presence of '(direct) award of a contract' forms as part of another control within this				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				review, we noted that in seven of the nine applicable cases, the listed "awarded date" occurred prior to the award of a contract form being signed. Through inspection of a walkthrough sample of one case, we verified that the signed contract date aligned with the date on the 'award of a contract' rather than the listed 'awarded date'. If contract details which are publicly disclosed are inaccurate, there is a risk of reduced transparency and clarity regarding the nature of procured contractual arrangements.				

APPENDIX A: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

Objectives of the area under review
To ensure the Authority's expenditure is undertaken in accordance with its Constitution, Public Procurement and European regulations.

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for consideration:

As a public sector organisation, Tees Valley Combined Authority ('Authority') has a duty to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for. It also has a duty to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. Our review will consider the following:

- A procurement strategy is in place, aligned to the Authority's Investment Plan and has been ratified by the Authority's senior management / Cabinet.
- Procurement activity has been undertaken by appropriately qualified staff.
- Forward pipeline planning with directorates is undertaken to inform procurement activity.
- Through sample testing, we will confirm the procurement system provides evidence of a transparent and controlled framework of authorised, equitable procurement and it is in line with current legislation. We will consider the route taken e.g. RFQ / single tender for appropriateness.
- Authority spend by supplier is analysed to inform future contract / framework arrangements.
- The Authority is transparent in its expenditure / contracts and publishes key information.
- Reporting on procurement through the Authority's governance structure.

Limitations to the scope of the audit assignment:

- Testing will be completed on a sample basis, so we will not confirm all transactions have been undertaken in accordance with the financial procedures.
- Our review will focus on procurement only. We will not consider expenditure through the P2P / credit card processes.
- We will not review technical specifications for appropriateness.
- We will not review contracts award for appropriateness.
- We will not consider contract variations as part of this review.
- We will not review the weighting applied to tender activities undertaken by the Authority.
- We will not review the framework in place to monitor contractor performance or the Authority's approach to contract management.

- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Legal and Governance Lead
- Procurement and Project Coordinator
- Claims and Monitoring Officer

Documentation reviewed during the audit:

- Contracts register as per available through the TVCA website
- Investment Plan, 2019 / 2029
- Authority Cabinet meeting minutes
- Senior Leadership Team meeting minutes
- Procurement forward plan
- Tender scoring spreadsheets
- Supplier acceptance / rejection feedback letters

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TEES VALLEY COMBINED AUTHORITY

General Data Protection Regulation (GDPR) Governance

FINAL

Internal Audit Report: 2.19/20

14 January 2020

RSM

CONTENTS

Debrief held	18 September 2019	**Internal audit team**	Robert Barnett, Head of Internal Audit
Draft report issued	24 September 2019		Phillip Church, Client Manager
Responses received	14 January 2020		John Marshall, Lead Auditor
Final report issued	14 January 2020	**Client sponsor**	Gary Macdonald, Director of Finance and Resources
		Distribution	Gary Macdonald, Director of Finance and Resources

1 EXECUTIVE SUMMARY

1.1 Background

From 25 May 2018 the General Data Protection Regulation (GDPR) replaced the EU Directive 95/46/EC. Whilst many of the GDPR's main concepts and principles remain largely the same as those in the previous Data Protection Act, there are significant new elements and enhancements which require organisations to perform some specific compliance activities for the first time.

In particular, GDPR places greater emphasis on the documentation that data controllers must keep demonstrating accountability. GDPR and the Data Protection Act 2018 established a framework of rights and duties designed to safeguard personal data. 'Personal data' is information about an identifiable living person and can be held in a variety of forms, including electronic data, images, emails and paper documents.

We have been commissioned to perform an agreed upon procedures assignment of the current data governance processes, procedures and controls against a number of control requirements set out in the ICO 12-step guide. Our report is a factual report and we do not provide a level of assurance, or internal audit opinion, and should not be taken to provide such.

Tees Valley Combined Authority ('Authority') has recently appointed a new Data Protection Officer (DPO), with the Legal Procurement and Governance Manager now covering this role. The role had previously been conducted by the Governance Manager. We were informed that the Authority does not collect high volumes of personal data as it mainly engages with businesses and does not receive personal information from these businesses relating to the use of their grants.

1.2 Key finding

The key findings by exception from this review are as follows:

Business processes and data discovery

- The Authority has in place an Information Asset Register that covers areas required under GDPR regulations. However, we did note that the number of information assets for each area identified was not included.

Third parties

- A template data sharing agreement is in place; however, there is no central register to confirm which third parties have data sharing agreements and which do not.

Data ownership

- Within the Information Asset Register it was confirmed that the Authority has identified the data owner for each information asset. It was identified that the Authority should introduce additional documentation and training to ensure that data owners are aware of their responsibilities.

Data security system level controls

- The Authority receives IT services from a third party. We noted that there is an agreement in place between the two parties. However, it was confirmed that the password policy requires passwords to be changed only on an annual basis, increasing the risk that a password may be compromised for a prolonged period of time.

Data storage and retention

- The Authority has in place a data retention schedule, however this has not been updated since 2018. Alongside this the schedule routinely refers to information listed within Stockton Borough Council's retention and disposal schedule, this information should be included within the Authority schedule also.

  The Authority does not have a Data Protection Impact Assessment (DPIA) template in place.

Awareness

- In May 2018 the Authority delivered a three-hour awareness session for staff. Since that time any new members of staff are required to be provided with the Employee Guide to Data Protection to review. However, observations at the Authority premises confirmed that there was a lack of awareness information across the office, such as posters or other materials.

Data policy, roles and responsibilities

- Review of the DPO job description confirmed that there was a lack of detail regarding roles and responsibilities and did not include any information relating to their reporting to the Cabinet.

Individuals' rights

- A privacy notice is communicated on the Authority website that covers the required rights of the individual under GDPR. However, there is no specific privacy notice for each area of consent they receive data from.

Consent

- We were informed that the Authority does not receive a large amount of personal data as it mainly works with businesses. Review of the template staff contract confirmed that it still references the Data Protection Act 1998.

Data breaches

- There is a data breach procedure in place that covers the correct requirements under GDPR. However, there is no central register that can be used to track any breaches and list the details of these.

2 DETAILED FINDINGS

Our internal audit findings and the resulting actions are shown below.

Ref	ICO Area	Findings summary	Actions for management	Responsible owner	Implementation date
1	Business processes and data discovery	We confirmed that the Authority has in place an Information Asset Register. The register contains the following details: • categories of personal data; • categories of individuals; • lead officer; • purpose of processing; • categories of recipients of data; • IT system used to manage the data; • processes used to capture data consent; • retention schedule; • general description of security measures in place; • basis for processing; and • if there is overseas transfer and the safeguards for these. The Information Asset Register does not include information on the number of assets for each data class. This will help to effectively manage and monitor the data.	The Authority will update the Information Asset Register to include the number of records within information asset.	DPO	31October 2019
2	Third parties	The Authority has a template data sharing agreement that is used and then adapted for use with each third party. The agreement includes the requirements for the third party to have sufficient security and monitoring arrangements in place to effectively manage the data securely.	The Authority will introduce a data sharing agreement register which will detail all the agreements in place and be used to track the compliance of the agreements.	DPO	31 October 2019

Ref	ICO Area	Findings summary	Actions for management	Responsible owner	Implementation date
		However, the Authority has not developed a data sharing agreement register. The register would list all of the third parties that the Authority share information with. Alongside this would be details of the sharing agreements in place, such as the expiry and any specific requirements to that third party. The use of a register will help to ensure greater compliance to article 28 of the GDPR requirements.			
3	Data ownership	Through review of the Information Asset Register it was confirmed that the Authority has identified a data owner for each information asset set out in the register. However, a review of the Data Protection Policy and other documentation confirmed that there is no information or guidance about how a data owner should comply with the requirements of GDPR. This is required to ensure that data is effectively managed.	The Authority will put in place training for data owners, so they are aware of their specific responsibilities.	DPO	31 October 2019
4	Data security system level controls	The Authority uses the Xentrall shared services team to manage all of their IT requirements. The Authority stores all of its information on a mixture of server and cloud-based storage. For the server storage, the servers are kept within a locked room where access is managed by access card. Alongside this, the server racks are individually locked. For the cloud storage there is two factor authentications used to monitor access. The Authority has a Password Policy that requires a minimum of 14 characters, must contain a special character, number, and upper and lower case letters. The password is required to be changed annually, this is not in line with best practice as we would expect to see a 90 day requirement for the password to be changed.	The Authority will work with the IT provider to change the Password Policy so password requires changing every 90 days.	DPO	31 October 2019
5	Data storage and retention	The Authority has a retention schedule in place which covers the retention period for a number of different types of data. The retention period routinely references Stockton Borough Council's retention and disposal schedule as a source for more information about how the information will be held. This information should be included within the	The retention schedule will be updated and include any information reference in the Stockton Borough Council's	DPO	31 October 2019

Ref	ICO Area	Findings summary	Actions for management	Responsible owner	Implementation date
		Authority retention schedule so that all information is held in one central place. The Authority does not have a Data Protection Impact Assessment (DPIA) template in place. A DPIA should be conducted every time there is a change or new process or data source that may impact how the Authority processes data. The DPIA is used to evidence that the Authority has considered the impact and any mitigating controls that may need to be put in place to reduce risk. A DPIA would normally include: • identifying the needs of a DPIA, including a list of screening questions relating to the details of the data in question; • a description of the data flows; • identifying the privacy and related risks; • identifying mitigation controls for the related risks; • approval for the mitigating controls; and • how the mitigating controls will be worked into the new project/system change.	retention and disposal schedule as appropriate. The Authority will put in place a DPIA template, complete it as required and have in place a register to store them centrally.		
6	Awareness	Through discussions with the DPO we were informed that the Authority contracted a third party to provide a three-hour training programme, taking staff through when GDPR was implemented in May 2018. Following this any new starters are required to be provided with the Employee Guide to Data Protection to read and understand. We were informed that going forward all new starters will receive a copy of the Data Breach Procedure. However, the Authority does not require new starters to sign to confirm they have read the Employee Guide to Data Protection. This is a requirement of the accountability principle under GDPR.	The Authority will create posters and other forms of communication to distribute around the premises to help develop more awareness of GDPR. Staff will be required to sign to confirm they have read and understood the Authority's Employee Guide to Data Protection.	DPO	31October 2019

Ref	ICO Area	Findings summary	Actions for management	Responsible owner	Implementation date
		Through observations at the Authority it was noted there was no posters or other forms of communication distributed around the office.			
7	Data policy, roles and responsibilities	The Authority has in place a Data Protection Policy which is available to members of staff via the shared drive. The policy covers: • regulation and legislation; • roles and responsibilities; • data asset register and privacy notices; • data protection impact assessments; • subject rights; • breach management; and, • monitoring and review. Review of the DPO job role confirmed that there was only one point in the description stating that the post holder would complete the requirements of the DPO and confirm compliance with the regulations. We were informed that the new DPO is currently reviewing which GDPR training course is most relevant for them to do to ensure they have the sufficient skills to effectively manage the risk associated with GDPR. This is to help ensure compliance with article 38 of GDPR. We noted that the associated job description did not include the following: • monitoring compliance; • subject access and freedom of information requests; • awareness; • reporting; and, • breach management.	The Authority will update the job description of the DPO to include more information on the responsibilities of the DPO and also allow them to report directly to Cabinet on issues relating to GDPR. The DPO will attend a relevant GDPR course. The Authority will ensure that a Cabinet member has sufficient experience and skills relating to GDPR.	DPO	31 October 2019

Ref	ICO Area	Findings summary	Actions for management	Responsible owner	Implementation date
		The job description should also include a provision for direct reporting to the Cabinet for any GDPR related information. This is to ensure there is a level of independence. Alongside this, the Authority should ensure that a nominated member of the Cabinet has sufficient experience to help embed GDPR across the Authority. This will help ensure compliance with Article 5(2) of GDPR.			
8	Individuals' rights	The Authority has in place a privacy notice that is accessible via the Authority website. The privacy notice covers the require ICO areas of: • why we are able to process your information; • what purpose we are processing it for; • whether you have to provide it to us; • how long we store it for; • whether there are other recipients of your personal information; • whether we intend to transfer it to another country; and • whether we do automated decision-making or profiling. However, the privacy notice is very general and has not been tailored for any of the specific areas of consent. The privacy notice should be tailored so it is specific in detailing how the Authority will deal with data for each area of data. The tailoring of a privacy notice is required to help ensure that there is transparency in the processing of the data as required within article 5(1)(a) and articles 13 and 14. Subject Access Requests (SAR) The Authority procedure towards SARs is covered within the data protection section of the website. There is a short paragraph stating the time period, that it is free of charge and who to contact to submit a request. There are no further formal documents relating to SARs. The Authority should cover within their documents their process to comply with requests. These would include how to deal with the initial	The Authority will produce a privacy notice for each individual area of consent. The Authority will update the Data Protection Policy to include information about how they will comply with subject access requests.	DPO	31October 2019

Ref	ICO Area	Findings summary	Actions for management	Responsible owner	Implementation date
		request, the requirements they have to comply with and any exemptions to the process.			
9	Consent	Review of the template staff contract confirmed that it still referenced the Data Protection Act 1998 and had not been updated to reflect the new GDPR requirements. The Authority utilises a third party to issue contracts and so will have to work with them for the contract to be updated. We were informed that the Authority, apart from staff data, does not collect personal data relating to individuals during its normal course of business. If the Authority does receive data it is usually in the role of a data processor rather than a controller and so is not responsible for gathering the consent.	The Authority will work with the HR provider and have the contract updated to reflect GDPR requirements.	DPO	31 October 2019
10	Data breaches	Through review of the Data Breach Procedure it was confirmed that the procedure covers the main requirements of reporting the breach within 72 hours to the ICO if required and also notifying the data subject. However, there is no detail within the procedure of what to do if a third party the Authority shares data with notifies them of a breach of the Authority's data they are holding. Alongside this there is no data breach register, this is a document used to monitor the response and details of any breaches. This is reviewed and updated following each breach.	The Authority will update the procedure to ensure it includes information about what to do in the event of a third-party data breach. The Authority will also produce a data breach register which will list: • reference; • date report; • details; • where; • category of information; • risk; • reported to ICO; and, • breach found by.	DPO	31 October 2019

APPENDIX A: SCOPE

The scope below is a copy of the original document issued.

This document sets out the key information relating to the GDPR governance, including the dates and agreed deadlines, the assignment team and client staff to be involved, and most importantly the scope of the assignment, including the limitations to the scope.

The GDPR assignment has been scoped to provide a factual analysis of Tees Valley Combined Authority data protection controls framework against the GDPR requirements and obligations.

Scope of the review

The scope of the assignment has been agreed by management as follows:

1 Business processes and data discovery

Based on the documentation and information provided inspection of the management control processes designed to identify and document all in scope data across the organisation. Related data inflows and outflows focussing in particular on:

- The existence of process and data mapping;
- Processes to classify data;
- Identification of data flows to third parties; and
- Methods of data storage and transfer.

2 Third parties

Based on the assessment set out at (1), we will carry out the following:

- Inspection of the methods used to identity third parties to whom the ‘in scope’ data is transferred.
- Identification of methods used to assess contractual data confidentiality existence and coverage.

3 Data ownership

- Based on the documentation and information at 1 above, note the existence of processes used to identify/allocate data owners.

4 Data security system level controls

- Test data security controls agreed by you over data inflow, data repository and data outflow and report results by reference to recognised good practice.

5 Data storage and retention

- Based on documentation and information at 1 above, comment on the existence of data retention and storage policies.

6 Awareness

- Based on the documentation and information at 1 above, comment on the existence of GDPR awareness processes.

7 Data policy, roles and responsibilities

- Based on the documentation and information at 1 above, comment on the existence and scope of current data policies.
- Based on the documentation and information at 1 above, comment on the existence and designation of data protection roles and responsibilities.
- Comment on current roles by reference to recognised good practice.

8 Individuals' rights

- Based on the documentation and information at 1 above, comment on the existence of procedures for updating, deleting, and reporting personal data at department and organisation level.

9 Consent

- Based on the documentation and information at 1 above, comment on the existence of processes in place to capture data consent.

10 Data breaches

- Based on the documentation and information at 1 above, comment on processes in place for the detection, reporting and investigation of personal data breaches

The following limitations apply to the scope of our work:

- The assignment is delivered as 'agreed upon procedures' and therefore will not result in a formal assurance level or opinion.
- We will not confirm compliance with GDPR and / or provide any legal or regulatory advice.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Julie Prior, Data Protection Officer;
- Gary Macdonald, Director of Finance and Resources

Documentation reviewed during the audit:

- Information Asset Register
- Data Sharing Agreement
- Retention Schedule
- Data Protection Policy
- DPO job description
- Authority website
- Template staff contract
- Data Breach Procedure

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TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Tees Valley Combined Authority Audit & Governance Committee

Forward Plan 2019/20

Standing Items

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

Date	Venue	Item / Responsible Officer
Thursday May 28th 2020	Cavendish House	Annual Financial Statements (incl. Annual Governance Statement) Corporate Risk Register Internal Audit Annual Report Internal Audit Opinion External Audit Plan External Audit Progress Report
Thursday July 21st 2020	Cavendish House	Audited Annual Financial Statements (incl. Annual Governance Statement) External Audit Completion Report and Value for Money Statement Corporate Risk Register Internal Audit Progress Report
Thursday November 19th 2020	Cavendish House	Internal Controls and Annual Governance Statement Annual Financial Statements Mid-Year Review Treasury Management Strategy Corporate Risk Register Internal Audit Progress Report External Audit Annual Audit Letter

To be arranged	Treasury Management Strategy – Meeting with external advisors