Tees Valley Combined Authority Cabinet
Agenda

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Date: Friday, 29th September, 2017 at 10.00am

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

Membership:

Mayor Ben Houchen (Tees Valley Mayor)
Mayor David Budd (Mayor of Middlesbrough)
Councillor Bill Dixon (Leader of Darlington Borough Council)
Councillor Christopher Akers-Belcher (Leader of Hartlepool Borough Council)
Councillor Sue Jeffrey (Leader of Redcar and Cleveland Borough Council)
Councillor Bob Cook (Leader of Stockton-on-Tees Borough Council)
Paul Booth (Chair of Tees Valley Local Enterprise Partnership)

Associate Membership:

Darren Hankey (Member of Tees Valley Local Enterprise Partnership)
Professor Paul Croney (Member of Tees Valley Local Enterprise Partnership)
Jerry Hopkinson (Member of Tees Valley Local Enterprise Partnership)
Angela Howey (Member of Tees Valley Local Enterprise Partnership)
Alistair Hudson (Member of Tees Valley Local Enterprise Partnership)
Mike Matthews (Member of Tees Valley Local Enterprise Partnership)
Siobhan McArdle (Member of Tees Valley Local Enterprise Partnership)
Nigel Perry (Member of Tees Valley Local Enterprise Partnership)
David Soley (Member of Tees Valley Local Enterprise Partnership)
Albert Pattison (Member of Tees Valley Local Enterprise Partnership)
Graham Robb (Member of Tees Valley Local Enterprise Partnership)

AGENDA

1. **Apologies for absence**

2. **Declaration of Interests**

3. **Minutes**

   The minutes of the meeting held on 27th July, 2017 for confirmation

4. Announcements from the Chair

5. Managing Director's Update

Attached

6. Annual Statement of Accounts 2016/17

Attached

7. Annual Governance Statement 2016/17

Attached

8. Treasury Management Strategy Annual Report 2016/17

Attached

9. South Tees Development Corporation Governance*

Attached

*Appendix 1 to this report is not for publication by virtue of paragraphs 1 and 2 of schedule 12A of the Local Government Act 1972

10. Date of Next Meeting

Friday, 27th October, 10.00am

Tees Valley Combined Authority Cabinet
Agenda

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Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers. Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact: Sarah Brackenborough, 01642 524423 or sarah.brackenborough@teesvalley-ca.gov.uk.

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TEES VALLEY COMBINED AUTHORITY

Tees Valley Combined Authority Declaration of Interests Procedures

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

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority to further their personal or private interests.

3. There are two types of personal interests covered by the constitution:

    a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
        i. a member of your family;
        ii. any person with whom you have a close association;
        iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
        iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
        v. any body as described in paragraph 3 b) i) and ii) below.

    b. Any other personal interests. You have a personal interest in any business of the Combined Authority where it relates to or is likely to affect:
        i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Combined Authority;
        ii. any body which:
            - exercises functions of a public nature;
            - is directed to charitable purposes;
            - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

<u>Procedures for Declaring Interests</u>

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

Register of Interests

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

Declaration of Interests at Meetings

6. The Combined Authority will include a standing item at the start of each meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.

7. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

8. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

<u>Sensitive Information</u>

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

Minutes

TEES VALLEY COMBINED AUTHORITY CABINET

Cavendish House, Teesdale Business Park, Stockton-On-Tees at 10.00am on Thursday 27th July, 2017

ATTENDEES

Members

Mayor Ben Houchen (Chair)	Tees Valley Mayor
Mayor David Budd	Mayor of Middlesbrough
Councillor Christopher Akers-Belcher	Leader, Hartlepool Borough Council
Councillor Bob Cook	Leader, Stockton-on-Tees Borough Council
Councillor Chris McEwan	Cabinet Member, Darlington Borough Council
Councillor Christopher Massey	Deputy Leader, Redcar and Cleveland Borough Council
Paul Booth	Member of Tees Valley LEP

Associate Members

Alistair Hudson	Member of Tees Valley LEP
Jerry Hopkinson	Member of Tees Valley LEP
Albert Pattison	Member of Tees Valley LEP
Mike Matthews	Member of Tees Valley LEP

Apologies for Absence

Councillor Bill Dixon	Leader, Darlington Borough Council
Councillor Sue Jeffrey	Leader, Redcar and Cleveland Borough Council
Angela Howey	Member of Tees Valley LEP
Phil Cook	Member of Tees Valley LEP
Siobhan McArdle	Member of Tees Valley LEP
David Soley	Member of Tees Valley LEP
Graham Robb	Member of Tees Valley LEP

Officers

Ada Burns	Chief Executive of Darlington Borough Council
Neil Schneider	Chief Executive of Stockton-On-Tees Borough Council
Steven Newton	Monitoring Officer, Redcar and Cleveland Borough Council
Andrew Lewis	Managing Director, Tees Valley Combined Authority
Sarah Brackenborough	Governance Manager, Tees Valley Combined Authority
David New	Senior Finance Manager, Tees valley Combined Authority
Sarah Tennison	Innovation and Technology Manager, Tees Valley Combined Authority
Zoe Lewis	Principal, Middlesbrough College
Mark Ladyman	Director for Economic Growth, Redcar and Cleveland Borough Council
Sarah Glendinning	Regional Director, CBI
James Ramsbotham	Chief Executive, North East Chamber of Commerce
Paul Campbell	Head of Investments and Treasury Management,

TVCA 15/17	**DECLARATIONS OF INTEREST** Councillor Massey declared an interest in the item regarding the Teesside Pension Fund, as a Teesside Pension Fund Member.
TVCA 16/17	**MINUTES** Consideration was given to the minutes of the meeting held on 13th June 2017. RESOLVED that the minutes of the meetings held on 13th June 2017 be confirmed and signed as a correct record.
TVCA 17/17	**ANNOUNCEMENTS FROM THE CHAIR** The Chair confirmed that all matters were covered on the agenda.
TVCA 18/17	**SUPPORTING APPRENTICESHIPS** Consideration was given to a report requesting approval of a new Apprenticeship Grant. The grant would be used to boost the number of high quality apprenticeships and to help smaller businesses to recruit and train apprentices. The Mayor thanked the lead Cabinet Member, Councillor Akers-Belcher, for the work done to date on the delivery of the previous scheme. Cabinet noted that it would be important to track the progress of employees and apprenticeships and also to ensure full consideration of the impact of the Apprenticeship Levy. It was noted that any issues and concerns would be picked up in a further report to be presented to Cabinet in Spring, and also through the Education, Employment and Skills Partnership Board. RESOLVED that: i. the latest information on the delivery of the Combined Authority's existing support for apprenticeships and the new national policy framework within which we now operate be noted; ii. a revised model of delivery for support for apprenticeships be funded, with three key elements: • A grant to support apprenticeships in priority sectors as identified in the Strategic Economic Plan; • Support for small employers to create new apprenticeships; • An initiative to promote the creation of high quality, higher and degree apprenticeships in priority sectors; and to consult on proposals for additional support. iii. a further report be received in spring 2018, with updated information on

	apprenticeships in the Tees Valley, including an assessment of the operation of the new Apprenticeships Levy within our area, and recommendations for further actions by the Combined Authority and/or central government.
TVCA 19/17	**EXERCISE OF COMBINED AUTHORITY BORROWING POWERS** Consideration was given to a report updating the Cabinet on progress in establishing the Combined Authority's borrowing powers, and the principles to be established for use of those powers to deliver on our ambitious plans for investment. RESOLVED that: i. the paper be noted; ii. Cabinet agree in principle to the Combined Authority receiving borrowing powers, with maximum local flexibility subject to the application of the Prudential Code.
TVCA 20/17	**INVESTMENT CO-OPERATION WITH TEESSIDE PENSION FUND** Consideration was given to a report which set out a proposal to enter in to a Memorandum of Understanding with Teesside Pension Fund. The pension fund had proposed that 5% of its funds (approximately £200m) should be made available to support projects which promote the economic development of the Tees Valley, and that this investment programme is developed in partnership with Tees Valley Combined Authority. The Cabinet welcomed the report and acknowledged the opportunities that could be presented. It was advised that the Memorandum of Understanding had now been approved by the Pension Fund. RESOLVED that: i. the commitment of the Teesside Pension Fund to direct investment to support local economic development, and to deliver this in partnership with the Combined Authority, be welcomed; ii. the progress in developing a joint approach to the identification and development of investment proposals be noted; iii. the Memorandum of Understanding be signed, and the authority to finalise the agreement in partnership with the Teesside Pension Fund be delegated to the Managing Director.
TVCA 21/17	**TRANSPORT PLAN UPDATE** Cabinet considered a report which provided an update on progress with the Strategic Transport Plan, following consultation on the Transport Framework. It was noted that the plan would have strong links to the Strategic Economic Plan and the Tees Valley Investment Plan and would also provide a framework for

	partnership working with Department for Transport, Highways England, Network Rail and Transport for the North. The Cabinet noted their disappointment that national plans for electrification had been cancelled and agreed to continue to try to push for this locally. It was acknowledged however that rail gauge enhancements were equally as important for increasing capacity. It was advised that the Transport Plan would be submitted to the Cabinet early in 2018. RESOLVED that the update on progress towards development of a Strategic Transport Plan and supporting documents be noted.
TVCA 22/17	**TRANSPORT FOR THE NORTH – INCORPORATION AS A SUB-NATIONAL TRANSPORT BODY** Consideration was given to a report requesting the consent of the Cabinet to the making of regulations by the Secretary of State to establish Transport for the North (TfN) as a Sub–National Transport Body under section 102E of the Local Transport Act 2008. The consent of each Constituent Authority of TfN was required to the making of regulations by the Secretary of State. Cabinet was also asked to approve in principle the transfer of Rail North Limited to TfN following its inauguration, and the signing of a new Rail Franchise Management Agreement with TfN replicating as far as possible the arrangements previously entered into in respect of Rail North Limited. The Mayor thanked the Lead Cabinet Member, Councillor Bill Dixon, for the work done to date on transport. RESOLVED that consent be given to: i. the making by the Secretary of State of Regulations under section 102E of the Local Transport Act 2008 to establish Transport for the North as a Sub-National Transport Body; ii. the transfer of Rail North Limited to TfN so that it can be subsumed within TfN; iii. the signing of a new Rail Franchise Management Agreement with TfN replicating as far as possible the current Rail North Limited Members Agreement.
TVCA 23/17	**CARBON CAPTURE AND STORAGE** Consideration was given to a report updating the Cabinet on the Carbon Capture and Storage (CCS) project. It was noted that Tees Valley was now home to the UK's leading CCS project, Teesside Collective, which was a consortium of large industrial companies, supported by NEPIC and co-ordinated by the Combined Authority. Cabinet noted that the government, through the Department of Business, Energy and Industrial Strategy (BEIS), was refocusing its policy approach to CCS, which

	was expected to be published in the autumn. Teesside Collective had an extensive engagement and communication programme in order to influence this policy, and to secure government agreement to resolve regulatory barriers, provide initial financial support for the build and operation of a major project in this region. RESOLVED that: i. the report and progress that has been made be noted; ii. support for Teesside Collective continue, and its development of proposals for industrial-scale CCS; iii. proposals to Government for CCS, through the Clean Growth Plan, be supported, with Tees Valley at the forefront of its development
TVCA 24/17	**BUSINESS COMPASS GROWTH SPECIALIST PROVISION** Consideration was given to a report regarding Business Compass Growth specialist provision. The report informed Cabinet of a bid that had been submitted to the European Regional Development Fund for a Specialist Support Service, and requested confirmation of the match funding. The service would form part of Tees Valley Business Compass and be complementary to the existing Tees Valley Business Compass Growth Service ("the Growth Service"). The Cabinet discussed the implications of Brexit for the future of European funding and the importance of securing replacement funding. RESOLVED that: i. the match funding of £511k be approved and that the submission of a final ERDF application for the enhanced business compass specialist advice service on 11th July be noted; ii. the Combined Authority makes the case to NEA2F and DCLG to unlock legacy funds allocated to the Tees Valley, to help reduce our contribution to the match; iii. subject to a successful ERDF application, and use of existing procurement rules, the Combined Authority place an additional c. £1m (including fund management costs) of ERDF funds in to the existing business compass investment fund, currently held by Business Enterprise Group. iv. subject to a successful ERDF application, the Combined Authority procure the specialist growth advice service.
TVCA 25/17	**GOVERNANCE AND APPOINTMENTS** Consideration was given to a report detailing a number of issues for decision by Cabinet, relating to Governance of the Combined Authority, delegation of decisions and appointments

	Cabinet discussed the proposal for a financial delegation, to be signed off jointly by the Mayor and the Cabinet Member, following a proposal put to them by the Managing Director. The Cabinet agreed that the delegation would allow for more efficient decision making between Cabinet meetings, but reiterated the importance of transparency of decisions. The Cabinet agreed to increase the maximum limit of the delegation to £1 million, to reflect the higher scale of investments being dealt with at the Tees Valley level, subject to appropriate transparency, reporting and monitoring procedures. A further appointment was agreed in the statutory appointments, Councillor Matt Vickers to replace Councillor Phil Dennis on the Overview and Scrutiny Committee. Councillor Akers-Belcher, supported by Councillor David Budd, advised that Councillor Sue Jeffrey should be appointed as Vice-Chair to the South Tees Development Corporation. The Mayor suggested that this was a matter for decision by the South Tees Development Corporation Board. RESOLVED that: i. the delegation be approved, with the financial limit to be set as £1 million; ii. the appointments, as set out in the appendix, be approved; iii. Julie Gilhespie be appointed as Finance Director; iv. The appointments to the South Tees Development Corporation be approved (to be published when the corporation is formally established on 1st August 2017).
TVCA 26/17	**DATE OF NEXT MEETING** The next meeting would be on Friday 29th September.

TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 5

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

29TH SEPTEMBER 2017

REPORT OF THE MANAGING DIRECTOR

MANAGING DIRECTOR'S UPDATE

SUMMARY

This report details a general update on the key activities of the Combined Authority since the last Cabinet meeting.

RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority Cabinet note this update.

DETAIL

Establishment of the South Tees Development Corporation

1. The South Tees Development Corporation was formally established on 1st August and launched by a visit from the Prime Minister, Northern Powerhouse Minister and BEIS Secretary of State for Business, Energy and Industrial Strategy, on 23rd August. It is the first Mayoral Development Corporation outside of Greater London and represents significant opportunity for investment, regeneration and job creation.

2. The South Tees Development Corporation Board, chaired by the Tees Valley Mayor, held its first meeting on 24th August. The Development Corporation is currently developing its master plan for the 4,500 acre site, which will be launched in October for public consultation.

Routes to Work

3. The Combined Authority was successful in securing government funding for a £7.5m Routes to Work Scheme, through a national allocation available only to Mayoral authorities, with the Tees Valley securing the largest award. The scheme will support up to 2,500 people into employment, by addressing the most complex barriers, and mobilising local networks of specialist support.

4. The scheme will draw on a wide range of services to meet the particular needs of individual clients. It will be delivered in partnership with the five local authorities and

their partners from the voluntary and community sector, taking a multi-agency approach based within local communities. Employers will also play an important role in ensuring provision of volunteer and work experience to provide routes to work for those furthest away from the labour market.

Adult Education Budget devolution

5. Following delays created by the general election period, the Department of Education has now confirmed that there is insufficient parliamentary time for the Orders which devolve responsibility for adult education to Mayoral Combined Authorities in 2018. We are in discussion with the Department to establish an alternative arrangement, for example through delegated powers, for a transition to devolution in 2019.

Apprenticeships

6. In August 2016, as part of the devolution agreement the Combined Authority received the Department of Education's Apprenticeship Grant for Employer's funding. The devolved programme closed on 31st August 2017, with 940 businesses requesting support. 1055 new apprenticeship opportunities have now been approved for funding. In July 2017 cabinet agreed a new programme of support for businesses in our priority sectors and very small businesses. In order to fully understand the impact of these programmes further evaluation will be undertaken and reported back to cabinet in the spring once data is available.

Homes and Communities

7. Work continues in partnership with the Local Authorities on preparing a joint Housing Investment and Delivery Plan with the Homes and Communities Agency. The plan is identifying the interventions, funding and investment requirements to bring forward housing sites across the Tees Valley. In parallel work continues in preparing bids for the £2.3bn Housing Infrastructure Fund. In total the infrastructure bid equates to approximately £290m for Tees Valley, to be submitted 28 September 2017.

Tees Valley Road Network

8. Tees Valley Combined Authority undertook a public consultation on the plans for better transport connections across the area, to provide businesses and residents with a high quality road network that is safe, less congested and more reliable. The consultation closed on 1st September and the Combined Authority received over 400 responses. The responses will be analysed, published and considered by the Tees Valley Transport Committee.

Heathrow Logistics Hub

9. The Combined Authority, working with a wide range of industrial partners, has proposed the creation of a Logistics Hub, to support the delivery of the expansion of Heathrow Airport. The Tees Valley Mayor met with the CEO of Heathrow Airport, to discuss this opportunity, and Heathrow's proposal to re-establish flights to Durham Tees Valley Airport as part of their future expansion plans.

Darlington 2025

10. The Combined Authority, Darlington Council and Virgin Trains have established an exhibition at Darlington Station, to inform and engage the public on the masterplan for the station, and our plans to accommodate HS2 and Northern Powerhouse Rail services. The plans also demonstrate how improvements can be made to services across the Tees Valley for both passengers and freight.

Culture

11. The Tees Valley Combined Authority, along with partners, continues to work towards the bid for City of Culture 2025. A delegation of members and officers from across Tees Valley met members of the bid and delivery team for Hull, and the Leader of Hull City Council, to learn more about their talk through bidding and delivery of the City of Culture year.

12. A number of discussions are ongoing with partners regarding development of a number of culture and tourism projects including heritage and attraction development, events and festivals and the river Tees.

Tees Valley Business Summit

13. The Tees Valley Business Summit was held in July, attracting over 850 delegates and over 100 exhibitors. The Summit also included a Tees Engineering Network event. It was the biggest summit to date and plans are already underway to ensure it builds on the success for next year.

Offshore Decommissioning

14. Between the 5th–8th September Tees Valley Combined Authority and partners, alongside 900 other companies and organisations from across Europe, exhibited at the Offshore Europe 2017 event in Aberdeen. It was estimated that some 11,000+ industrial professionals attended the four day event covering sector interests in areas of decommissioning, innovative supply chains, regulatory alignment, single source solutions, plus a host of other sector technology and service providers. Our team's focus was on opportunities in attracting offshore decommissioning, establishing commercial opportunities to be followed up over the coming weeks.

FINANCIAL IMPLICATIONS

15. There are no financial implications to this report.

LEGAL IMPLICATIONS

16. There are no legal implications to this report.

RISK ASSESSMENT

17. This report is an update and therefore is categorised as low risk.

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AGENDA ITEM 6

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

29^{TH} SEPTEMBER 2017

REPORT OF THE FINANCE DIRECTOR

ANNUAL STATEMENT OF ACCOUNTS 2016/17

SUMMARY

This report presents to Cabinet the Authority's Statement of Accounts for 2016/17.

RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority Cabinet approve the Statement of Accounts for 2016/17.

DETAIL

1. The accounts have been completed in accordance with the "Code of Practice on Local Authority Accounting in the United Kingdom 2016/17" which is prepared under International Financial Reporting Standards.

2. The Accounts and Audit Regulations (England) 2015 came in to effect on 1st April 2015. The regulations change the arrangements for the approval and publication of the Statement of Accounts and the Annual Governance Statement. Under the regulations the Authority must publish its audited Statement of Accounts and approved Annual Governance Statement by 30th September for 2016/17. Thereafter the publication date becomes 31st July.

3. The period in which the public have the right to examine the accounts, question the auditor and to make objections at audit has also changed. This is now a period of 30 working days which for 2016/17 must include the first ten working days of July. In 2018 this will become the first ten working days of June. The inspection period for this year commenced on the 28^{th} June and ended on 9th August 2017. During this period there were no requests to inspect the accounts and there were no objections raised with the external auditor.

4. The external audit report on the statement of accounts and value for money, the "Annual Completion" report, highlighted a small number of agreed changes to the draft accounts presented to this committee in June. One misstatement was also reported however it was not adjusted as it was felt it did not impact on the content of the accounts.

5. The following key financial issues are included in the accounts:

    - The comprehensive income and expenditure statement shows that the Authority generated an overall surplus of £50.3m in year. This is predominantly earmarked revenue and capital grants and contributions received but unapplied in year.
    - The Authority's total reserves amounted to £85.4 million; this is predominantly earmarked general fund reserves and capital grants unapplied.
    - TVCA's investment in the Tees Valley in 2016/17 was £44.2m.
    - Investments and Cash amount to £78.0 million. The majority of these funds are held with other local authority's, in bank deposits or invested in money market funds.
    - The level of TVCA Core balances at the 31st March stands at £0.668 million.
    - The Authority's Pension Scheme liability stands at £1.714m at the 31st March.

FINANCIAL IMPLICATIONS

6. TVCA Core Balances as at the 31st March 2017 are £668,000.

RECOMMENDATIONS

7. It is recommended that Cabinet approve the Statement of Accounts for 2016/17.

LEGAL IMPLICATIONS

8. Regulation 9(1) of the Accounts and Audit Regulations 2015 requires the Authority's Chief Finance Officer to sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the Authority. Regulation 9(2) requires the Statement of Accounts to be approved by members prior to publication. Regulation 10(1) requires the publication of the approved, audited Statement of Accounts by 30 September in 2017 and by 31st July thereafter.

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RISK ASSESSMENT

9. None directly from this report.

CONSULTATION

10. None directly from this report.

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CONTENTS

Narrative Report

Introduction

Welcome to the Tees Valley Combined Authority's Annual Statement of Accounts for 2016/17. 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 2016/17. The purpose of this narrative report is to provide a guide to the Authority's accounts as well as setting out the Authority's financial position.

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 and economic development and growth across the combined area.

Balances were transferred from Stockton-on – Tees Borough Authority to the Combined Authority relating to Tees Valley Unlimited. 2016/17 was a transition year, preparing the organisation to undertake new responsibilities. A new Managing Director was appointed in July 2016 and a capacity review undertaken to reflect the increasing levels of responsibilities and funding including the transition to mayoral governance arrangements.

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

- **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 and 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.

Narrative Report

A set of indicative activities and output targets is identified within the Strategic Economic Plan (SEP) for the six priorities as well as an assessment of overall impact.

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.

Financial Position As At 31 March 2017

Core Running Costs

Our financial position at the end of the financial year on core running costs is shown in the following table:

Core Running Costs	**Budget**	**Actual**	**Variance**
	£000s	**£000s**	**£000s**
Salary Costs	1,685	1,728	43
Other Non Staffing Expenditure	787	822	35
Total Expenditure	**2,472**	**2,550**	**78**
Opening Balances Transferred to TVCA	(1,055)	(1,055)	-
LA Contributions	(2,067)	(2,067)	-
Bank Interest	-	(96)	(96)
Total Income	**(3,122)**	**(3,218)**	**(96)**
General Fund Balance @ 31/03/17	**(650)**	**(668)**	**(18)**

The variance relates to external audit fees and transitional arrangements which have been funded from the generation of investment interest. The General Fund balance at year end was £0.668m. This includes £18k which was agreed to fund outstanding Due Diligence costs leaving an uncommitted balance of £0.650m, in line with that planned.

Narrative Report

Resource Position

Our investment in Tees Valley in 2016-17 was £44.2 million spent as detailed in the following table.

	Budget £000	Actual £000	Variance £000
Total Devolved Spend	24,437	23,399	(1,038)
Other Spend	20,945	20,827	(118)
TOTAL EXPENDITURE	**45,382**	**44,226**	**(1,156)**
Funded by:-			
Devolved Funding	(24,437)	(23,399)	1,038
Specific Grants	(20,945)	(20,827)	118
TOTAL FUNDING	**(45,382)**	**(44,226)**	**1,156**

There is £1.1m of net slippage compared to the expected position in 2016/17 which is as a result of spending being reprofiled into future years. In particular match funding for the ESF Youth Employment Initiatives, Apprenticeship Grant for Employers and expanding superfast broadband programmes of £3.5m has been offset by accelerated spending on the Local Growth Fund of £2.5m. Overall, spending is on track as part of the multi-year programme. The position will be further considered as part of the Investment Plan Review due to be considered by Cabinet at its September meeting. Please note that these figures compared to the CIES exclude income and expenditure related to SSI and Core running costs.

Development Fund

The Development Fund was created to provide upfront investment in feasibility work to ensure that when proposals come forward under the Strategic Economic Plan priorities they are sufficiently developed for decision making and to allocate funding. The balance on the Development Fund at 31 March 2017 is £3.315m, of which £1.496m is uncommitted.

Task Force Funding

In October 2015, we suffered the devastating loss of the SSI Redcar Steelworks, with the direct loss of 3,000 jobs, and many more affected in the wider supply chain. The SSI Task Force was established to offer help and support to those affected by the closure. The Task Force worked with government to put in place local packages of investment of which £13.305m was expended in 2016/17 to support both individuals and business affected by the closure and also to provide longer term wider economic benefits to the area.

Of the Task Force funding received to date there remains a balance of £29.204m at 31 March 2017 to provide continued economic support for those impacted by the closure.

Looking Ahead Including Future Funding Changes & Risks

Following detailed negotiations between the Tees Valley Local Authorities and Government, a devolution deal worth £450 million over 30 years was signed in October 2015. Equivalent to an additional £15 million per year, the deal also provides for the transfer of significant powers for employment and skills, transport and investment from Central Government to the Tees Valley. A new fund (the Single Pot) has been created to deliver a programme of investment in the region over the 30 year period. As part of the devolution deal a new Tees Valley Mayor has been elected in May 2017 to chair the Combined Authority and drive forward our ambitious plans.

Narrative Report

The Tees Valley Business Compass Service expanded on the existing Growth Hub arrangement during the latter part of 2016/17 and is being delivered by a third party under contract to the Combined Authority. The programme aims to support 1,025 SME's growth opportunities. The total amount of European funding available until the end of 2019 is £12.97m. This will also lever in co-investment from grant recipients of £19.2m.

The South Tees area is a complex site which needs careful oversight. It was therefore agreed with government in the devolution deal that the South Tees area would benefit from the first Mayoral Development Corporation outside London, to be established by the Combined Authority under new legal powers. The SSI-owned sites themselves create particular challenges. The government has made a formal commitment that no responsibilities will be transferred locally without appropriate and specific funding and has initially provided resources to ensure the safe management of the site. The Combined Authority will continue to work closely with the government to ensure liabilities and risks are managed effectively.

The Tees Valley Combined Authority's first Investment Plan was published and agreed in March 2017. Investment will adhere to the single pot assurance framework agreed with government to ensure we are open and accountable for our decisions. It will be reviewed again in Autumn 2017. This revision will take into account progress over the next 6 months, including opportunities for further devolution and the development of our Sector Action Plans. The review will also be the first opportunity to reflect the priorities and manifesto of the incoming Mayor.

The Chancellor announced in the 2016 Autumn Statement that Mayoral Combined Authorities would be given the power to borrow to fund investment. Borrowing is expected to be subject to the "Prudential Code" which applies to all local authority borrowing. The powers which are expected to be in place during the latter part of next financial year and will be reflected in an updated Treasury Management Strategy to be agreed by Cabinet. Borrowing will be subject to a sound business case and provide opportunities to boost and bring forward investment enhancing the impact on the economic growth of the Tees Valley. The Combined Authority will only be able to borrow where we are able to generate a return from investment, or can assign future funding to fully fund the borrowing costs.

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. But 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. The outcome depends on the Brexit negotiations, and the choices that the government makes about how local economic development should be supported in this new environment.

Non Financial Performance

Key performance measures are as follows:-

• Apprenticeship Grant for Employers (AGE) - following the devolution of AGE Grant funding effective from August 2016 from central Government the Combined Authority has supported training for 765 apprentices.

• Careers and Enterprise Company Activity - the Enterprise Adviser Network programme has signed up 46 schools/ colleges already exceeding the target of 44 by August 2017, engaging with 7,242 Tees Valley young people aged 12-18 years old.

• SSI Schemes – individuals have been supported in addition to those businesses covered under Business Compass below:-

- Jobs & Skills - 363 jobs created
- Retraining and removing barriers to employment - supported 2,061 former SSI and affected supply chain employees.
- Enabled 51 former SSI apprentices to complete their apprenticeships with other employers.
- Created 269 new business start ups by affected former employees.

Narrative Report

• Business Compass – During the year the Growth Hub worked with over 750 companies to secure over £8.8m of new investment (including £6.1m of private sector match funding) which created over 300 new jobs and safeguarded 87 jobs. The increased European Funding has facilitated increased delivery capacity moving from 3 FTE advisor posts to 5 FTE in year (further increasing to 10 during 2017/18)

Borrowing and Lending Arrangements

During 2016/17, the Combined Authority had no powers to borrow for investment and therefore has no loans.

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 £77m. The average rate of return on investments was 0.23% and this has generated £180k in interest in the year.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

In terms of investment strategy, given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2017/18.

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 £1.714m on the Local Government Pension Scheme as at 31st March 2017. Employer's contributions to the pension fund during 2016/17 were charged at 19.8% of total pensionable employee pay in line with actuarial advice. Further information on retirement benefits is available in Note 20 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.

Movement in Reserves Statement for the year ended 31 March 2017

This statement shows the movement in the year on the different reserves held by the Authority, 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 Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000s	£000s	£000s	**£000s**	**£000s**	**£000s**
<u>Movement in reserves during 2016/17</u>						
Transfer from Stockton on Tees Borough Council	35,121	-	-	**35,121**	**-**	**35,121**
Revised Balance at 1 April 2016	**35,121**	**-**	**-**	**35,121**	**-**	**35,121**
Total Comprehensive Income and Expenditure	52,028	-	-	**52,028**	(1,723)	**50,305**
Adjustments between accounting basis & funding basis under regulations (Note 5)	(40,403)	-	40,570	**167**	(167)	**-**
Increase/Decrease in Year	**11,625**	**-**	**40,570**	**52,195**	**(1,890)**	**50,305**
Balance at 31 March 2017 carried forward	**46,746**	**-**	**40,570**	**87,316**	**(1,890)**	**85,426**
General Fund analysed over:						
Amounts earmarked (Note 6)	46,078					
Amounts uncommitted	668					
Total General Fund Balance at 31 March 2017	**46,746**					

Comprehensive Income and Expenditure Statement for the year ended 31 March 2017

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

	2016/17		
	£000s	**£000s**	**£000s**
	Expenditure	**Income**	**Net**
Business Growth	6,108	(10,112)	**(4,004)**
Research Development Innovation & Energy	1,631	(4,378)	**(2,747)**
Education Employment & Skills	4,558	(6,827)	**(2,269)**
Culture	25	-	**25**
Transport	20,602	(20,863)	**(261)**
Enabling Infrastructure	58	(6,679)	**(6,621)**
Project Development	1,258	(1,258)	**-**
Schemes Not in the Investment Plan	26,074	(16,258)	**9,816**
Core Running Costs	2,227	(7,028)	**(4,801)**
Cost Of Services	**62,541**	**(73,403)**	**(10,862)**
Financing and Investment Income and Expenditure:			
Net interest on the net defined benefit liability/asset	160	(130)	30
Interest receivable and similar income		(253)	(253)
Taxation and Non-Specific Grant Income:			
Non-ringfenced government grants	-	(373)	(373)
Capital grants and contributions	-	(40,570)	(40,570)
(Surplus) or Deficit on Provision of Services			**(52,028)**
Re-measurements of the defined benefit liability			1,723
Other (gains) and losses			-
Other Comprehensive Income and Expenditure			**1,723**
Total Comprehensive Income and Expenditure			**(50,305)**

Balance Sheet as at 31 March 2017

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. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority 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 is 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	31 March 2017 £000s
Non-current assets		
Long Term Debtors		5,013
Total non-current assets		5,013
Current assets		
Short term investments		50,056
Debtors	10	5,966
Cash and Cash Equivalents	11	28,002
Total current assets		84,024
Current liabilities		
Short Term Creditors	12	(1,897)
Total current liabilities		**(1,897)**
Long term liabilities		
Long Term Creditors		-
Other Long Term Liabilities	13 & 20	(1,714)
Total long term liabilities		**(1,714)**
Net Assets:		**85,426**
Reserves		
Usable reserves:		
General Fund Balance	1	668
Earmarked General Fund Reserves	6	46,078
Capital Grants Unapplied		40,570
		87,316
Unusable Reserves:		
Pensions Reserve	13 & 20	(1,714)
Accumulated Absences Account	5	(176)
		(1,890)
Total Reserves:		**85,426**

Cash Flow Statement For The Year Ended 31 March 2017

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority 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 are funded by way contributions and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority'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	2016/17 £000s
Net (surplus) or deficit on the provision of services		**(52,028)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements:		
Pension Fund adjustments		9
Transfer of reserves from Stockton-on-Tees Borough Council		(35,121)
Increase/(Decrease) in Revenue Debtors	10	5,966
(Increase)/Decrease in Revenue Creditors	12	(1,897)
Increase/(Decrease) in Long Term Debtors		5,013
		(26,030)
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		40,570
		40,570
Net cashflow from operating activities		**(37,488)**
Investing activities		
Purchase of short term and long term investments		50,056
Other receipts from investing activities		(40,570)
Net cashflow from investing activities		**9,486**
Net (increase) or decrease in cash and cash equivalents		**(28,002)**
Cash and cash equivalents at the beginning of the reporting period		**-**
Cash and cash equivalents at the end of the reporting period	11	**(28,002)**
The cashflow for operating activities includes the following items:		
Interest received		**(191)**
Interest paid		**-**

Note 1: Expenditure & Funding Analysis

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.

	2016/17		
	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**
Business Growth	43	(4,047)	**(4,004)**
Research Development Innovation & Energy	45	(2,792)	**(2,747)**
Education Employment & Skills	21	(2,290)	**(2,269)**
Culture	24	1	**25**
Transport	30	(291)	**(261)**
Enabling Infrastructure	-	(6,621)	**(6,621)**
Project Development	-	-	**-**
Schemes Not in the Investment Plan	71	9,745	**9,816**
Core Running Costs	(276)	(4,525)	**(4,801)**
Net Cost Of Services	**(42)**	**(10,820)**	**(10,862)**
Other Income and Expenditure	(626)	(40,540)	(41,166)
Surplus or Deficit	**(668)**	**(51,360)**	**(52,028)**
Opening General Fund Balance	**-**		
Less/Plus Surplus or (Deficit)	**668**		
Closing General Fund Balance at 31 March 2017	**668**		

Note 1: Expenditure & Funding Analysis

Notes to the Expenditure and Funding Analysis:

Adjustments between Funding and Accounting Basis 2016/17				
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	-	(2)	(4,045)	**(4,047)**
Research Development Innovation & Energy	-	-	(2,792)	**(2,792)**
Education Employment & Skills	-	(1)	(2,289)	**(2,290)**
Culture	-	(1)	2	**1**
Transport	-	-	(291)	**(291)**
Enabling Infrastructure	-	-	(6,621)	**(6,621)**
Project Development	-	-	-	**-**
SSI Tsk Force Funding	-	(2)	9,747	**9,745**
Core Running Costs	-	(33)	(4,492)	**(4,525)**
Net Cost Of Services	-	(39)	(10,781)	**(10,820)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(40,570)	30	-	**(40,540)**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(40,570)	(9)	(10,781)	**(51,360)**

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 ie 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.

Note 1: Expenditure & Funding Analysis

Expenditure and Income Analysed By Nature

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

	2016/17 £000s
Expenditure	
Employee benefits expenses	2,476
Other services expenses	60,065
Interest payments	160
Total Expenditure	**62,701**
Income	
Fees, charges and other service income	(691)
Interest and investment income	(383)
Government grants and contributions	(113,655)
Total Income	**(114,729)**
(Surplus) or Deficit on the Provision of Services	**(52,028)**

Segmental Income

Income received on a segmental basis is analysed below:

	2016/17 £000s
Services	**Income from Services**
Schemes Not in the Investment Plan	(416)
Core Running Costs	(275)
Total income analysed on a segmental basis	**(691)**

Note 2: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The 2016/17 Code of Practice includes amendments to the following accounting standards that have not been adopted within this Statement of Accounts:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers

The Authority does not anticipate that the above amendments will have a material impact on the information provided in the financial statements in that there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services.

Note 3: Critical Judgements in Applying Accounting Policies

In applying it's accounting policies the Authority 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:

As far as Value Added Tax is concerned the Government’s usual intention is to ensure that the Combined Authority like other local authorities should not bear any additional costs from VAT and that HMRC would not incur costs or make savings as a result of the policy. The policy would have no impact for the Exchequer. However, powers under Section 33 of the VAT Act 1994 were not put in place by the Department for Communities and Local Government or HM Treasury to enable the Combined Authority to fall under these arrangements until 7 November 2016. As a consequence £610k of unrecoverable VAT has been charged against service accounts for the period 1 April to 6 November 2016. Discussions are on-going with DCLG and Treasury regarding this position

Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority 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 the Authority’s Balance Sheet at 31 March 2017 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 the Authority with expert advice about the assumptions to be applied. Sensitivities are included in Note 20.

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

2016/17	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s
Adjustments involving the Capital Adjustment Account (see note 7)	-			-
Adjustments involving the Capital Grants Unapplied Account	(40,570)		40,570	-
Adjustments involving the Pensions Reserve	(9)			(9)
Adjustments involving the Accumulated Absences Adjustment Account	176			176
Total Adjustments	**(40,403)**	**-**	**40,570**	**167**

Note 6: 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 2016/17.

Earmarked Reserves	Balance at 31 March 2016	Transfers Out 2016/17	Transfers In 2016/17	Balance at 31 March 2017
	£000s	£000s	£000s	£000s
Revenue Reserves				
Development Pot	-	141	(2,300)	(2,159)
Investment Fund	-	6,063	(27,650)	(21,587)
SSI	-	10,306	(32,638)	(22,332)
Total Revenue Reserves	**-**	**16,510**	**(62,588)**	**(46,078)**

Note 7: Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

	2016/17	
	£000s	£000s
Balance at 1 April 2016		
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Revenue expenditure funded from capital under statute	28,339	
		28,339
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	(28,339)	
		(28,339)
Balance at 31 March 2017		-

Note 8: 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 no payments were made to these members during 2016/17.

Note 9: Employee remuneration

Remuneration of the Managing Director and his senior staff are shown in the following table.

Remuneration of Senior Employees

Post holder information	Salary (Including fees & Allowances) £	Expense Allowances £	Benefits in kind £	Total Remuneration excluding pension contributions 2016/17 £	Pension contributions £	Total Remuneration including pension contributions 2016/17 £	Total Remuneration including pension contributions 2015/16 £
Managing Director	100,161	559	-	**100,720**	8,694	**109,414**	-
Strategy Director	91,932	651	-	**92,583**	18,202	**110,785**	-
Investment Director	21,619	158	-	**21,777**	4,280	**26,057**	-
Business Director	91,932	964	-	**92,896**	18,202	**111,098**	-
Head of Skills Education & Employment	17,078	-	-	**17,078**	3,381	**20,459**	-
Head of Culture & Tourism	16,993	-	-	**16,993**	3,620	**20,613**	-
Head of Transport	5,827	-	-	**5,827**	1,154	**6,981**	-
Head of Homes & Communities	31,142	-	-	**31,142**	6,166	**37,308**	-
	376,684	2,332	-	**379,016**	63,699	**442,715**	-

Only two of the senior employee posts have been in employment of the organisation for the full financial year. These being the Strategy Director and Business Director. All other employees commenced employment at various stages of the year.

The Chief Finance Officer and Monitoring Officer are both employees of Stockton On Tees Borough Council and do not receive any direct remuneration from TVCA for this role.

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:

Remuneration Summary Salary Range	Number of Employees 2016/17
£50,001 - £55,000	-
£55,001 - £60,000	-
£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 Managing Director and his senior staff has been excluded from the salary range analysis in the table above.

Note 10: Debtors

	31 March 2017 £000s
Central Government	1,372
Local Government	4,500
Other entities and individuals	94
	5,966

Note 11: Cash and Cash Equivalents

	31 March 2017 £000s
Bank and Imprests	2,996
Cash Equivalents	25,006
	28,002

Note 12: Short Term Creditors

	31 March 2017 £000s
Central Government	(59)
Local Government	(1,474)
Other entities and individuals	(364)
	(1,897)

Note 13: Other Long Term Liabilities

	31 March 2017 £000s
Net pensions liability	(1,714)
	(1,714)

Note 14: Related Party Transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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 the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties. Grants received from government departments are set out in the subjective analysis in Note 18.

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in Note 8. During 2016/17, there were no related party transactions between Authority members and TVCA.

Entities Controlled or Significantly Influenced by the Authority

No elected member or senior officer of the authority sit on any board or management committee of any entities which are significantly controlled or influenced by the authority.

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.

2016/17	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,832	4,844
Middlesbrough Borough Council	4,590	6,994
Redcar & Cleveland Borough Council	4,895	3,235
Hartlepool Borough Council	2,582	2,941
Darlington Borough Council	3,431	3,808
Total	**20,330**	**21,822**

Note 15: External Audit Costs

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

	2016/17 £000s
Fees payable to Mazars LLP with regard to external audit services	30
Fees payable to Mazars LLP for the certification of grant claims	-
Fees payable in respect of other services provided by Mazars LLP	-
	30

Note 16: Leases

Operating leases: Authority as lessee

From the 1st January 2017 the Authority 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	**2016/17 £000s**
Not later than one year	119
Later than one year & not later than five years	608
Later than five years	722
	1,449

Note 17: Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year 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.

	31 March 2017 £000s
Opening Capital Financing Requirement	**-**
Capital investment	
Revenue expenditure funded from capital under statute	28,339
Sources of Finance	
Government grants and other contributions	(28,339)
Closing Capital Financing Requirement	**-**

Note 18: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17.

	2016/17 £000s
Credited to Taxation and Non Specific Grant Income	
Local Growth Fund	28,479
SSI	6,872
Growing Places	4,063
Development Pot	1,156
Total	**40,570**
Credited to Services	
Local Growth Fund	9,308
SSI	7,368
LEP Core	500
ERDF Business Compass	339
AGE	1,158
DECC - City Deal / Carbon	300
Devolution	15,000
Sustainable Transport	990
Local Transport Plan	14,674
Contributions from other LA's	2,088
Other	3,696
Total	**55,421**

Note 19: Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term	Current
	31 March 2017	31 March 2017
	£000s	£000s
Loans and receivables	5,013	78,058
Financial assets carried at contract amounts	-	5,812
Total financial assets	**5,013**	**83,870**
Financial liabilities carried at contract amount		(1,662)
Total financial liabilities		**(1,662)**

Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Mark to Model Valuation for Financial Instruments
As at 31st March 2017 the Authority held £88.9m financial assets and had no financial liabilities. All the financial assets are classed as Loans and Receivables and held with Notice Accounts. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Arlingclose our Treasury Managment Advisors. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector.

Loans and receivables	31 March 2017	
	Carrying Amount	Fair Value
	£000s	£000s
Money Market Loans < 1 year	50,056	50,056
Other Loans >1 year	5,013	5,013
Cash on Deposit	28,002	28,002
Customers	5,812	5,812
Total loans and receivables	**88,883**	**88,883**

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The exceptions to this treatment are short term debtors and creditors are carried at cost as this is a fair approximation of their value.

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 payments
- **re-financing risk –** the possibility that the Authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms

Note 19: Financial Instruments

- **market risk –** the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

Overall procedures for managing risks

The Authority's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Authority to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Authority's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported after each year and regular updates are provided to the Audit Committee.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services.

The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on the Authority's website.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £21,000 cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2017	Historical experience of default	Adjustment for market conditions at 31 March 2017	Estimated maximum exposure to default at 31 March 2017
	£000s	%	%	£000s
AA rated counterparties	-	0.03%	0.03%	-
A rated counterparties	35,000	0.06%	0.06%	21
B rated counterparties	0	0.18%	0.18%	-
Local Authorities	15,000	0.00%	0.00%	-
Debtors	5,812	0.00%	0.00%	-
				21

No breaches of the Authority's counterparty criteria occurred during the reporting period and the Authority does not expect any losses from non performance by any of its counterparties in relation to deposits.

Note 19: Financial Instruments

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 2017, all of the Authority's deposits were due to mature within 364 days.
Refinancing and Maturity risk
The Authority maintains a significant investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. The approved treasury indicator limits placed on investments are the key parameters used to address this risk. The Authority approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

Market Risk
Interest Rate Risk: *The Authority is exposed to interest rate movements on its investments. Movements in interest rates have a complex impact on the Authority, depending upon how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:*

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

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

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

	2016/17 £000s
Increase in interest receivable on variable rate investments	301
Impact on (Surplus) or Deficit on the Provision of Services	**301**

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 20: Defined Benefit Pension Schemes

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 20: Defined Benefit Pension Schemes

	Local Government Pension Scheme
	2016/17
	£000s
Comprehensive Income and Expenditure Statement	
Cost of Services:	
• Current service cost	366
• Past service cost	-
Financing and Investment Income and Expenditure	
Net interest cost	30
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**396**
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)	(787)
• Actuarial gains and losses arising on changes in financial assumptions	1,434
• Actuarial gains and losses due to liability experience	-
• Actuarial gains and losses due to acquisitions	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**647**
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	(396)
Actual amount charged against the General Fund Balance for pensions in the year:	
• Employers’ contributions payable to scheme	**405**

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" (£1.723m) includes the inherited opening liability of £1.076m in addition to the charge for the year (£0.647m) set out above.

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
	2016/17
	£000s
Present value of defined benefit obligation	(6,715)
Fair value of assets	5,001
Net liability recognised in the Balance Sheet	**(1,714)**

Note 20: Defined Benefit Pension Schemes

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

	Local Government Pension Scheme 2016/17 £000s
Opening fair value of scheme assets	3,578
Interest income	130
Remeasurement gains and (losses)	787
Contributions from the employer	405
Contributions from employees into the scheme	113
Net increase from acquisitions	-
Benefits paid	(12)
Closing balance at 31 March 2017	**5,001**

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

	Local Government Pension Scheme 2016/17 £000s
Opening balance at 1 April	(4,654)
Current service cost	(366)
Interest cost	(160)
Contributions by scheme participants	(113)
Actuarial gains and losses - financial assumptions	(1,434)
Actuarial gains and losses - liability experience	-
Benefits paid	12
Net increase from acquisitions	-
Past service cost	0
Closing balance at 31 March 2017	**(6,715)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2016/17 £000s	%
Equity investments (Quoted)	4,001	80.0%
Property (Quoted)	345	6.9%
Government Bonds	10	0.2%
Corporate Bonds	10	0.2%
Cash	560	11.2%
Other Investments	75	1.5%
	5,001	**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 2017.

Note 20: Defined Benefit Pension Schemes

The principal assumptions used by the actuary have been:

	2016/17
Mortality assumptions:	
Longevity at 65 for current pensioners:	
Men	22.8
Women	24.9
Longevity at 45 for future pensioners:	
Men	25.0
Women	27.2
Other assumptions:	
Rate of inflation (RPI)	3.1%
Rate of inflation (CPI)	2.0%
Rate of increase in salaries	3.0%
Rate of increase in pensions	2.0%
Rate of Pension accounts revaluation rate	2.0%
Rate for discounting scheme liabilities	2.6%
Take-up of option to convert annual pension into retirement lump sum	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)	6,517	6,715	6,915
Rate of increase in salaries (increase or decrease by 0.1%)	6,784	6,715	6,647
Rate of increase in pensions payment (increase or decrease by 0.1%)	6,820	6,715	6,612
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	6,545	6,715	6,890

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 £0.257m contributions to the scheme in 2017/2018.

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

Note 21: Termination Benefits

The Authority terminated the contract of one employee in 2016/17, incurring liabilities of £3k. The amount has been payable to an officer from the Authority reflecting the end of specific grant funding.

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
	2016/17	2016/17	2016/17	2016/17 £000s
£1 to £20,000	1	-	1	3
Total	**1**	**-**	**1**	**3**

Note 22: Provisions

The Authority has not been required to establish any provision's in year.

Note 23: Contingent Liabilities

The Authority has no contingent liabilities.

Note 24: Post Balance Sheet Events

The Authority has no post balance sheet events to report.

Note 25: Statement of Accounting Policies

General Principles
The Statement of Accounts summarise the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is 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 Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the financial statements is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

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 Authority 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 Authority.
- Income from the provision of services is recognised when the Authority 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 Authority.
- 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 Authority'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 Authority'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 Authority. 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.

Note 25: Statement of Accounting Policies

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

- The Local Government Pensions Scheme, administered by Middlesbrough Authority.

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

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 Authority 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 Authority 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 Authority - 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 Authority 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.

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:

Note 25: Statement of Accounting Policies

- 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
Loans and receivables 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 for interest receivable are based on the carrying amount of the asset in the Balance Sheet. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:
- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

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 Authority when there is reasonable assurance that:
- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority 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.

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
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).

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

Note 25: Statement of Accounting Policies

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority 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 Authority 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 Authority 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 Authority 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 Authority. A contingent asset arises where an event has taken place that gives the Authority 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 Authority. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

The Authority 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 Authority 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 Authority.

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 Authority 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 25: Statement of Accounting Policies

Fair Value Measurement
The Authority 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 Authority 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 Authority 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 Authority 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's Responsibilities

The Authority 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 Authority, 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 Authority's 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 the Authority at the accounting date and its income and expenditure for the year ended 31 March 2017.

G Cummings CPFA **Date: 30 June 2017**
Chief Financial Officer

These financial statements replace the unaudited financial statements certified by the previous Chief Finance Officer on the 30th June 2017

J Gilhespie **Date: 29 September 2017**
Director of Finance

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

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

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.

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".

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AGENDA ITEM 7

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

29TH SEPTEMBER 2017

REPORT OF THE MANAGING DIRECTOR AND FINANCE DIRECTOR

ANNUAL GOVERNANCE STATEMENT 2016/17

SUMMARY

This report presents to Cabinet the Authority's draft Annual Governance Statement for 2016/17.

RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority Cabinet approve the Annual Governance Statement for 2016/17.

DETAIL

1. The Accounts and Audit Regulations 2015 require all authorities in England to conduct a review at least once a year of the effectiveness of its governance framework and produce an Annual Governance Statement to accompany its Statement of Accounts. The deadline for completion of the Statement of Accounts for 2016/17 is 30 June 2017 at which point they are subject to the external audit process.

2. The audited Statement of Accounts and the Annual Governance Statement are therefore presented for approval at Cabinet on the 29 September, 2017.

3. A further requirement of the regulations state that the Statement should be signed by the Managing Director and the Mayor, following approval by Cabinet. A key objective of this signing off process is to secure corporate ownership of the statement's contents.

4. The Annual Governance Statement includes an acknowledgement of responsibility for ensuring that proper arrangements are in place around the governance of its affairs and an indication of the level of assurance that the system provides. The statement also includes a description of the key elements forming the governance framework, a description of the process applied in reviewing the effectiveness of this framework, including the system of internal control, and an outline of the actions taken or, proposed to be taken, to deal with significant governance issues.

5. The Combined Authority's draft Annual Governance Statement for 2016/17 is attached at **Appendix 1**. At this time the Authority has not identified any significant issues that are not being addressed within the Statement.

FINANCIAL IMPLICATIONS

6. None directly from this report.

LEGAL IMPLICATIONS

7. The Accounts and Audit Regulations 2015 require all English authorities to prepare an Annual Governance Statement and for it to accompany the Statement of Accounts.

RISK ASSESSMENT

8. None directly from this report

CONSULTATION

9. None.

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TEES VALLEY COMBINED AUTHORITY

Appendix 1

Draft Annual Governance Statement 2016/17

Introduction

1. 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 on Tees, alongside private sector representation from the region's Local Enterprise Partnership. The Combined Authority is responsible for a number of transport functions and economic development and growth across the combined area.

2. 2016/17 was a transition year, preparing the organisation to undertake new responsibilities. A new Managing Director was appointed in July 2016 and a capacity review undertaken to reflect the increasing levels of responsibilities and funding including the transition to mayoral governance arrangements effective from May 2017. The transition to a new Mayoral Combined Authority was approved by each of the constituent councils. A revised Strategic Economic Plan was established. A new constitution was agreed in consultation with the constituent authorities, underpinning the new statutory framework established by the Tees Valley Combined Authority (Functions and Amendment) Order 2017; including arrangements for Audit and Scrutiny. The Authority also agreed its first Investment Plan setting out its financial framework for the 2017-21 period, and established a clearer budget-setting process. An Assurance process was agreed with central government.

3. Measures taken during this transition year helped to prepare the Authority for the election of the new Tees Valley Mayor on 4th May 2017, at which point the new governance arrangements became fully established.

Scope of Responsibility

4. The Tees Valley Combined Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Combined Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

5. The Authority has established governance arrangements which are consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) Framework - Delivering Good Governance in Local Government. A copy of the Authority's Constitution is available on its website at

   https://teesvalley-ca.gov.uk/wp-content/uploads/2017/05/TVCA-Constitution-Document-2017.pdf.

The Annual Governance Statement sets out how the Authority has complied with the framework and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015 in relation to a review of the effectiveness of the Internal Control system.

The Purpose of the Governance Framework

6. The governance framework comprises the systems and processes, and culture and values that direct and control our activities and through which we account to, engage with and lead the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Combined Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

8. A governance framework has been in place at the Tees Valley Combined Authority for the year ended 31 March 2017 and up to the date of approval of the statement of accounts. A revised Constitution was agreed by the Authority in February 2017 to reflect governance arrangements post-election of the Tees Valley Mayor in May 2017. This Constitution has been developed in consultation with the Constituent Authorities and in parallel to the legislative process which defines the specific powers and functions transferred to the Combined Authority and the Mayor.

9. The Combined Authority has maintained a clear position that the establishment of the Mayor should be accompanied by effective checks and balances, with the constituent authorities continuing to play a strong role in governance, and with transparent decision-making and effective scrutiny. These principles were embedded in the governance scheme put forward by the Combined Authority, and were confirmed by public consultation, and a series of constitutional workshops held in each council, and with the Overview and Scrutiny Committee.

The Authority's Vision

10. There is a clear vision of our purpose and intended outcomes for businesses and residents that is clearly communicated, both within and outside the organisation. The ambition is for Tees Valley to become a high value, low carbon, diverse and inclusive economy:-
    a. rapid and sustainable economic growth to benefit the Tees Valley and the whole of the UK;
    b. improved life chances and opportunities for communities so that local people directly benefit through improved prosperity and wellbeing; and

c. real strength and vibrancy as a place in which to live, work, study, visit and invest.

11. These aspirations and goals, along with the Combined Authority's plan for delivering them, are laid down in the refreshed Strategic Economic Plan (SEP) and in a new Investment Plan setting out deliverables by 2026 and 2040. Our ambition incorporates economic, social and environmental priorities and will allow all partners to work towards a sustainable and socially responsible Tees Valley.

12. 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:-

    a. **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
    b. **Research, Development, Innovation & Energy**: Further enhance productivity in all core sectors through the commercialisation of knowledge;
    c. **Education, Employment & Skills**: Ensure a labour market which meets the needs of local business and supports the lifetime opportunities of all our residents;
    d. **Place**: Promote the Tees Valley as the preferred location in the UK for energy intensive indigenous firms and Foreign Direct Investment and create the conditions necessary to attract businesses and individuals with a focus on vibrant town centres;
    e. **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
    f. **Transport & Infrastructure**: Facilitate local, regional, national and international road, rail and broadband connectivity through collaborative investment in physical infrastructure.

13. A set of indicative activities and output targets is identified within the Strategic Economic Plan (SEP) for the six priorities as well as an assessment of overall impact.

14. The Strategic Economic and Investment Plan sets out our priorities and the significant actions we will take. These, in turn, shape our activities and how we will focus our resources. We are clear where we need to get to and what we need to do to get there.

15. An Investment Plan was agreed in March 2017, setting out how the Combined Authority will use its resources to deliver the Strategic Economic Plan, during the 2017-21 period. The Investment Plan will be reviewed in autumn 2017, in line with

Constitutional arrangements and to reflect the views of the incoming Mayor, and will be reviewed annually thereafter.

The Governance Framework

16. Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with partners and stakeholders will ensure the authority's vision remains relevant and meets the needs of local communities. There will be regular reviews of the local Code of Corporate Governance to ensure that it is up to date and effective.

17. Arrangements are in place to measure the quality of our services, to ensure they are delivered in line with our objectives and for ensuring that they provide value for money. There are performance management arrangements in place including an annual appraisal scheme for staff. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job descriptions/ person specifications.

18. The roles and responsibilities of Authority members and employees are clearly documented. The Authority's Constitution sets out how the Authority operates. It incorporates a scheme of delegation, indicates responsibilities for functions and sets out how decisions are made. The Constitution is subject to regular review, with substantive changes requiring the unanimous agreement of the Authority's Cabinet.

19. The Constitution includes Rules of Procedure and various Codes and Protocols that set out standards of behaviour for members and officers.

20. During the year a system of scrutiny was in place allowing the scrutiny function to:-

    a. review or scrutinise decisions made, or other action taken, in connection with the discharge of any functions which are the responsibility of the Combined Authority;
    b. make reports or recommendations to the Combined Authority with respect to the discharge of any functions which are the responsibility of the Combined Authority;
    c. Make reports or recommendations to the Combined Authority on matters that affect the authority's area or the inhabitants of the area.

21. In the new constitution Overview and Scrutiny can "call-in" for review or scrutinise decisions made by the Combined Authority, but not implemented, and to direct that that decision is not implemented while it is under review or scrutiny.

22. The Combined Authority has secured provision of certain of its administrative functions (including legal, procurement, finance, human resources and ICT) with a view to their more economical, efficient and effective discharge through delegation to Stockton-On-Tees Borough Council.

23. A range of financial and HR policies and procedures are in place, as well as risk management processes. Investments adhere to the single pot assurance framework agreed with government to ensure we are open and accountable for our decisions. It will be reviewed again later in the year to ensure it remains fit for purpose. There are comprehensive budgeting systems in place and a robust system of budgetary control, including quarterly and annual financial reports, which indicate financial performance against forecasts.

24. The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Finance Officer (under Section 73 of the Local Government Act 1985) fulfils this role through the following:

    a. Attendance at meetings of Directors Management Team, helping it to develop and implement strategy and to resource and deliver the Authority's strategic objectives sustainably and in the public interest;
    b. Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
    c. Alignment of medium term business and financial planning processes;
    d. Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively; and
    e. Ensuring that the finance function is resourced to be fit for purpose.

25. The role of the Chief Financial Officer (CFO) is currently provided through Stockton-on –Tees Borough Council but with effect from August 2017 the Combined Authority employed its own Finance Director working across both the Tees Valley Combined Authority and the new South Tees Mayoral Development Corporation.

26. The Combined Authority has an Audit and Governance Committee which, undertakes an assurance and advisory role to:

    Audit

    a. To consider the effectiveness of the TVCA's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, and seek assurance from the Chief Officers, Internal Audit and External Audit that action is being taken on risk related issues within the organisation.
    b. To consider internal audit annual reports and opinions; and consider a review of the effectiveness of the system of internal audit.

    Standards

    c. To promote and maintain high standards of conduct by TVCA members and co-opted members.
    d. To ensure the TVCA members and co-opted members observe the Members' Code of Conduct.

e. To advise the Combined Authority Board on the adoption or revision of the Members' Code of Conduct.
f. To monitor complaints received by the TVCA in respect of Member conduct.
g. To conduct hearings following investigation and determine complaints made against members and co-opted members.
h. Where a member or co-opted member is found to have failed to comply with the Code of Conduct to take such action as may be necessary to promote and maintain high standards of conduct, in accordance with the powers available to the Committee.

27. The Authority recognises the need to review its Counter fraud strategy policy designed to encourage prevention, promote detection, ensure effective investigation where suspected fraud or corruption has occurred; and prosecute offenders where appropriate.

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

29. Arrangements for confidential reporting (whistle-blowing) and for receiving and investigating complaints are in place. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Authority's business, they can easily report their concerns. The whistle blowing arrangements support the maintenance of a strong regime of internal control.

30. Members are experienced in their roles for the Combined Authority, and undertake designated portfolio roles in support of Cabinet decision-making; supported by lead officers for that portfolio area. The Authority recognises that managing the performance of all of employees is key to ensuring that the organisation meets the needs of the area. This includes assessing ability against requirements of the role focusing on strengths and highlighting areas of weakness, job related training, and on-going evaluation of the extent to which employees understand and support the values of the Authority.

31. Channels of communication have been established with all sections of the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that activities meet the needs of local people. The Authority maintains an active social media presence, and ensures full transparency of its policies and decision-making.

32. We continue to work closely with all our partners including the local enterprise partnership, other public bodies, the Voluntary, Community and Social Enterprise

(VCSE) sector and the private sector. We have established proportionate governance arrangements for all partnerships.

33. The Combined Authority has agreed to the formal designation of the South Tees area as a Mayoral Development Corporation (to be named the “South Tees Development Corporation” (STDC)). The Corporation was established in August 2017. The Authority’s Cabinet have agreed a constitution for the STDC which sets out the statutory framework, its core objectives, how decisions are made, board arrangements and powers. It determines the checks and balances on the application of those powers, getting the right balance between the freedom of the STDC to make commercial arrangements to meet is objectives, with the need to be prudent and accountable as a public body. The constitution includes a “referral mechanism”, to ensure that decisions which generate significant risks and liabilities have to be escalated to the Combined Authority for ratification. Other aspects of the constitution, including the role of a joint Combined Authority/STDC Finance Director, and its Audit Committee.

Review of Effectiveness

34. The Combined Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

35. The Managing Director and Chief Financial Officer have directed, co-ordinated and overseen the review and its findings have been reported to the Audit and Governance Committee, at their meeting on 5th September, for their consideration of the Annual Governance Statement.

36. The review is informed by a number of assurances gathered from all available sources and in particular:-

    a. Assurances from senior officers responsible for relevant specialist areas.

    b. Stockton Borough Council provides the internal audit service to the Combined Authority. Internal Audit has liaised with the relevant statutory officers during the year to assist in the adequacy and effectiveness of the Authority’s existing systems of internal control. The Head of Internal Audit’s annual assurance opinion is reproduced below from his annual report to the Audit and Governance Committee –

       “It is my opinion that the Combined Authority continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver its objectives, and detect fraud and other malpractice within a reasonable period of time. Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction.”

c. Monitoring by the Authority and the Department of Communities and Local Government of an Assurance Process, agreed with government as a condition for exercising devolved responsibilities for funding (through the so-called "single pot" of unringfenced funding). The Authority has provided a high level of assurance through this process, with measures taken to improve transparency and clarify the requirements for due diligence on individual investments.

37. The outcome of the review of effectiveness provided us with the necessary assurance that no significant issues were identified. The findings of the review have been reported to the Audit and Governance Committee and the actions required to improve it. The areas to be addressed with actions are outlined in the improvement plan.

38. We propose over the coming year to take steps to implement the improvement plan to further enhance the Authority's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation as part of the next annual review.

IMPROVEMENT PLAN

Action	Outcome	Responsibility	By When
Review the Local Code of Corporate Governance	Updated code	Governance Manager	31st March 2018
Review and update the Authority's Constitution including scheme of delegation	Updated constitution	Managing Director	31st March 2018
Review of Assurance Framework	Updated Framework	Investment Director	31st December 2017
LEP "Buddy" Review	Update as required	Strategy Director	30th September 2017
Update Risk Management Strategy	Updated Strategy	Governance Manager	30th September 2017
Update Counter Fraud Strategy	Updated Strategy	Head of Internal Audit	31st March 2018

By order of the authority

Signed:	Signed:
A Lewis	**B Houchen**
Managing Director	**Mayor**
Date:	Date

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 8

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

29TH SEPTEMBER 2017

REPORT OF THE FINANCE DIRECTOR

TREASURY MANAGEMENT STRATEGY ANNUAL REPORT 2016/17

SUMMARY

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

RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority Cabinet approve the content of the report.

DETAIL

Introduction

1. In April 2017 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year. This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

2. The Authority's treasury management strategy for 2016/17 was approved at a meeting of the Authority on 4th April 2017. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

3. **Economic background:** Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and

the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

4. UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% in April 2016 to 2.3% in March 2017.

5. In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

6. Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

7. Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

8. **Financial markets:** Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

9. After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

10. Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

11. **Credit background:** Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

12. Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

13. None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Authority's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

Local Context

14. On 31st March 2017, the Authority had net investments of £78.058m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

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

15. The Net Investment figure represents the authority's cash and cash equivalent and short term investment funds held at the 31st March 2017 inclusive of accrued interest. The treasury management position as at 31st March 2017 is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £m
Long-term borrowing Short-term borrowing	0 0
Total borrowing	**0**
Long-term investments	0

Short-term investments Cash and cash equivalents	77,000 1,058
Total investments	**78,058**
Net Investments	**78,058**

Borrowing Activity

16. The Authority at the 31st March 2017 had limited powers to borrow and therefore did not enter into any borrowing agreements. All expenditure of a capital nature was funded through grants and contributions.

Investment Activity

17. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17, the Authority's investment balance ranged between £35m and £77m million due to timing differences between income and expenditure. These investments **generated £180k in interest during 2016/17**. The year-end investment position is show in table 3 below.

Table 3: Investment Position

Counterparty	Amount £	Rate %	Start Date	Maturity Date
Goldman's	5,000,000	0.50%	06-Mar-17	05-Jun-17
Lloyds	5,000,000	0.65%	06-Oct-16	06-Apr-17
Standard Life	5,000,000	0.29%	06-Oct-16	Money Market Fund
Federated	5,000,000	0.29%	06-Oct-16	Money Market Fund
Legal & General	5,000,000	0.28%	06-Oct-16	Money Market Fund
Blackrock	5,000,000	0.23%	06-Oct-16	Money Market Fund
Insight	5,000,000	0.28%	06-Oct-16	Money Market Fund
Barclays	10,000,000	0.45%	12-Oct-16	12-Apr-17
Santander	10,000,000	0.40%	12-Oct-16	95 Day Notice
Lloyds	5,000,000	0.60%	05-Dec-16	05-Jun-17
Nat West Bank	2,000,000	0.01%	12-Apr-16	Call Account
Hull	5,000,000	0.38%	07-Mar-17	07-Jun-17
Slough	5,000,000	0.43%	06-Mar-17	06-Sep-17
Telford	5,000,000	0.45%	07-Mar-17	07-Sep-17
	77,000,000	**0.37%**		

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

19. In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Authority diversified into money market funds which allowed the Authority the flexibility to have access to funds immediately. Also due to the high level of investments this diversification was required so that limits with counterparties set within the treasury management strategy were not breached during the year. Due to the developing capital expenditure plans of the Authority it was not prudent to diversify further into higher yielding asset classes during 2016/17. The progression of risk and return metrics are shown in the extracts from Arlingclose quarterly investment benchmarking in table 4 below.

Table 4: Investment Benchmarking

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**WAM* (days)**	**Rate of Return**
31.12.2016	5.47	A+	100%	36	0.34%
31.03.2017	4.76	A+	81%	43	0.39%
Similar LAs	4.6	A+	74%	66	0.67
All LAs	4.3	AA-	60.%	47	1.14%

*Weighted average maturity

20. The Authority's best performing investments in 2016/17 were those with banks and other financial institutions where there were longer maturity dates. £35m was held in these funds across five counterparties at the 31st March 2017.

Compliance Report

21. The Director of Finance is pleased to report that all treasury management activities undertaken during 2016/17 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 5 below.

Table 5: Investment Limits

	2016/17 Maximum	**31.3.17 Actual***	**2016/17 Limit**	**Complied**
UK Banks, Foreign Banks and other organisations	£35m	£35m	£20m each	✓
Council's Own Clearing bank	£19m	£2m	£20m	✓
UK Building Societies without credit ratings	£0m	£0m	£7m each	✓
UK Local Authorities	£15m	£15m	£10m each	✓
UK Government DMO, Treasury Bills, Treasury Gilts & Instruments	£12m	£0m	Unlimited	✓
Money Market Funds	£25m	£25m	£5m each	✓

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

22. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	2016/17 Maximum	31.3.17 Actual	2016/17 Operational Boundary	2016/17 Authorised Limit	Complied
Borrowing	£0	£0	£2m	£5m	✓

23. The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

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

25. As the Authority has limited borrowing powers which it did not exercise during the year these limits were not breached.

Treasury Management Indicators

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

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

	31.3.17 Actual	2016/17 Limit	Complied
Upper limit on fixed interest rate exposure	65%	100%	✓
Upper limit on variable interest rate exposure	35%	100%	✓

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

29. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

30.

	31.3.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£0	0%	25%	✓
12 months and within 24 months	£0	0%	40%	✓
24 months and within 5 years	£0	0%	60%	✓
5 years and within 10 years	£0	0%	80%	✓

10 years and above	£0	0%	100%	✓

31. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

32. **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2016/17	**2017/18**	**2018/19**
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied	✓	✓	✓

Prudential Indicators

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

34. This report compares the approved indicators with the outturn position for 2016/17. Actual figures have been taken from or prepared on a basis consistent with, the Authority's statement of accounts.

35. **Capital Expenditure:** The Authority's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	**2016/17 Actual £m**
General Fund	28.339
Total Expenditure	**28.339**
Government Grants	(28.339)
Total Financing	**(28.339)**

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

Capital Financing Requirement	31.03.17 Estimate £m	31.03.17 Actual £m	Difference £m
General Fund	0	0	0
Total CFR	**0**	**0**	**0**

37. **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and CFR	31.03.17 Estimate £m	31.03.17 Actual £m	Difference £m
Total debt	0	0	0
Capital financing requirement	0	0	0
Headroom	**0**	**0**	**0**

38. The Authority's capital expenditure during 2016/17 was fully funded through government grants and as such there was no requirement for it to enter into debt.

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

Ratio of Financing Costs to Net Revenue Stream	31.03.17 Estimate %	31.03.17 Actual %	Difference %
General Fund	0%	**0%**	0%

FINANCIAL IMPLICATIONS

40. Treasury Management Investment activity during 2016/17 generated income of £180k.

LEGAL IMPLICATIONS

41. None.

RISK ASSESSMENT

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

CONSULTATION

43. Not applicable.

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Appendix 1 to this report is not for publication by virtue of paragraphs 1 and 2 of schedule 12A of the Local Government Act 1972

AGENDA ITEM 9

REPORT TO THE TEES VALLEY COMBINED AUTHORITYCABINET

29TH SEPTEMBER 2017

REPORT OF THE MANAGING DIRECTOR

SOUTH TEES DEVELOPMENT CORPORATION GOVERNANCE

SUMMARY

This report gives an update on the Governance of the South Tees Development Corporation, including new appointments to the Board, and sets out the recommendation of the Tees Valley Independent Remuneration Panel (IRP) for remuneration for members of the South Tees Development Corporation Board, for consideration by the Tees Valley Combined Authority Cabinet.

*Information in **Appendix 1** is exempt from publication because of reference to appointments of named individuals. If the recommendations are approved, the information will be released publicly and the appendix declassified.*

RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority Cabinet:

i. Note the formal establishment of the South Tees Development Corporation as a statutory body, with effect from 1st August 2017, and launched by the Prime Minister on 23rd August.

ii. Approve the Corporation Board's proposal for the appointment of Vice-Chairs and an additional board member, as set out in **Appendix 1.**

iii. Agree the Independent Panel's recommendation that remuneration of £5000 per year is provided for eligible members of the Board;

iv. Agree that the remuneration be reviewed by the Independent Remuneration Panel at the stage where the future governance of South Tees Development Corporation and the South Tees Site Company Ltd is considered, with a recommendation to be reported back to the Combined Authority Cabinet, at the appropriate point.

DETAIL

ESTABLISHMENT OF THE SOUTH TEES DEVELOPMENT CORPORATION

1. The South Tees Development Corporation was formally established on 1st August and launched by a visit from the Prime Minister, Northern Powerhouse Minister and BEIS Secretary of State on 23rd August. It is the first Mayoral Development Corporation outside of Greater London and represents significant opportunity for investment, regeneration and job creation.

2. The South Tees Development Corporation Board, chaired by the Tees Valley Mayor, held its first meeting on 24th August. The Board is made up of a mix of public, private and education sector individuals and will provide leadership for the overall vision for the site. Cabinet agreed at its July meeting that the Board should be invited to appoint its own Vice-Chairs, and information on this proposal is provided in Appendix 2. The Board also proposed an additional member, in order to more closely align the governance of the South Tees Development Corporation and the South Tees Site Company (a central government body), as also described in Appendix 2.

3. The Development Corporation is currently developing its master plan for the 4,500 acre site, which will be launched in October for public consultation.

INDEPENDENT REMUNERATION PANEL

4. The Independent Remuneration Panel is appointed by the Combined Authority and includes a representative appointed by each of the five Local Authorities. The Panel met on 1st August 2017 to consider options for the remuneration of the South Tees Development Corporation Board members. This report sets out the recommendations arising from this meeting for consideration by Cabinet.

5. The IRP was presented with detailed background information on the development of the South Tees Development Corporation. The Panel was also given comparator information for remuneration of Boards members for similar organisations, which included the two existing Development Corporations in London and the South Tees Site Company (STSC) Ltd Board, which will continue to exist separately in the interim. It was recommended that those Board members who were on the South Tees Site Company Board in addition to the Development Corporation Board, and who are already in receipt of remuneration for the Site Company Board, should not be eligible for remuneration. The elected members (Tees Valley Mayor, Leader of Redcar and Cleveland Borough Council and the Mayor of Middlesbrough) should also not be eligible for remuneration as Board members, since their remuneration is considered separately within their own authorities taking into account their wider responsibilities. Associate Members are also not eligible.

6. Taking all of the information into account, the Panel recommended that the allowance for the eligible Development Corporation Board members should be set at £5000, to

reflect the value of the work to be undertaken and the engagement and commitment required by the Board members.

7. The Panel also recommended that this allowance be reviewed by a meeting of the IRP at a relevant point in the future. It was agreed that the most appropriate point would be when consideration is given to the future governance of the South Tees Development Corporation and the South Tees Site Company Ltd. Following this review, the IRP would then make further recommendations, as appropriate, to the Cabinet.

FINANCIAL IMPLICATIONS

8. The funds for the remuneration of eligible Board members will be provided from within the Development Corporation's own operational budget.

LEGAL IMPLICATIONS

9. There are no legal implications to this report.

RISK ASSESSMENT

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

CONSULTATION

11. Consultation was undertaken through the IRP, and this report sets out their recommendations for agreement by Cabinet.

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