

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 its 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 | 31 st March 2018 |
| Review and update the Authority’s Constitution including scheme of delegation | Updated constitution | Managing Director | 31 st March 2018 |
| Review of Assurance Framework | Updated Framework | Investment Director | 31 st December 2017 |
| LEP “Buddy” Review | Update as required | Strategy Director | 30 th September 2017 |
| Update Risk Management Strategy | Updated Strategy | Governance Manager | 30 th September 2017 |
| Update Counter Fraud Strategy | Updated Strategy | Head of Internal Audit | 31 st March 2018 |

By order of the authority

Signed:

A Lewis
Managing Director

Date:

Signed:

B Houchen
Mayor

Date