

A meeting of the
**West of England Combined Authority
Audit Committee**

will be held on

Date: 28 September 2017

Time: 10.45 am

Place: WECA Board Room, 3 Rivergate, Temple Quay, Bristol, BS1 6ER

Notice of this meeting is given to members of the West of England Combined Authority Audit Committee as follows:

Cllr Will Sandry, Bath & North East Somerset Council
Cllr Brian Simmons, Bath & North East Somerset Council
Cllr Donald Alexander, Bristol City Council
Cllr Harriet Bradley, Bristol City Council
Cllr Brenda Massey, Bristol City Council
Cllr Mark Weston, Bristol City Council
Cllr Geoffrey Gollop, Bristol City Council
Cllr Jerome Thomas, Bristol City Council
Cllr Roger Avenin, South Gloucestershire Council
Cllr John Ashe, South Gloucestershire Council
Cllr John O'Neill, South Gloucestershire Council

Enquiries to:

Joanna Greenwood
West of England Combined Authority Office
3 Rivergate, Temple Quay, Bristol, BS1 6GD
Email: info@westofengland-ca.gov.uk

West of England Combined Authority Audit Committee Agenda

YOU HAVE THE RIGHT TO:-

- Attend all WECA Audit Committee meetings unless the business to be dealt with would disclose 'confidential' or 'exempt' information.
- Inspect agendas and public reports five days before the date of the meeting
- Inspect agendas, reports and minutes of the WECA Audit Committee for up to six years following a meeting.
- Inspect background papers used to prepare public reports for a period public reports for a period of up to four years from the date of the meeting. (A list of background papers to a report is given at the end of each report.) A background paper is a document on which the officer has relied in writing the report.
- Have access to the public register of names, addresses and wards of all Councillors sitting on WECA Audit Committee.
- Have a reasonable number of copies of agendas and reports (relating to items to be considered in public) made available to the public attending meetings of WECA Audit Committee.
- Copy any of the documents mentioned above to which you have a right of access. There is a charge of 15p for each side of A4, subject to a minimum charge of £4.
- For further information about this agenda or how the Authority works please contact Joanna Greenwood, telephone 0117 428 6210 or e-mail: info@westofengland-ca.gov.uk

OTHER LANGUAGES AND FORMATS

**This information can be made available in other languages, in large print, braille or on audio tape.
Please phone 0117 428 6210**

Guidance for press and public attending this meeting

The Openness of Local Government Bodies Regulations 2014 mean that any member of the public or press attending this meeting may take photographs, film or audio record proceedings and may report on the meeting including by use of social media (oral commentary is not permitted during the meeting as it would be disruptive). This will apply to the whole of the meeting except where there are confidential or exempt items, which may need to be considered in the absence of the press or public.

If you intend to film or audio record this meeting please contact the Officer named on the front of the agenda papers beforehand, so that all necessary arrangements can be made.

Some of our meetings are webcast. By entering the meeting room and using the public seating areas you are consenting to being filmed, photographed or recorded. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

An archived recording of the proceedings will also be available for viewing after the meeting. The Combined Authority may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator.

EVACUATION PROCEDURE

In the event of a fire, please await direction from the West of England Combined Authority staff who will help assist with the evacuation. Please do not return to the building until instructed to do so by the fire warden(s)

1. ANNUAL BUSINESS

- I. Election of Chair
- II. Election of Vice Chair

2. APOLOGIES FOR ABSENCE

To receive apologies for absence from Members.

3. DECLARATIONS OF INTEREST UNDER THE LOCALISM ACT 2011

Members who consider that they have an interest to declare are asked to: a) State the item number in which they have an interest, b) The nature of the interest, c) Whether the interest is a disclosable pecuniary interest, non-disclosable pecuniary interest or non-pecuniary interest. Any Member who is unsure about the above should seek advice from the Monitoring Officer prior to the meeting in order to expedite matters at the meeting itself.

4. MINUTES

As this is the first meeting of the West of England Audit Committee, there are no previous minutes to consider or approve.

5. ITEMS FROM THE PUBLIC

Members of the public can speak for up to 3 minutes each. The total time for this session is 30 minutes so speaking time will be reduced if more than 10 people wish to speak.

If you wish to present a petition or make a statement and speak at the meeting, you are required to give notice of your intention by noon on the working day before the meeting by e-mail to info@westofengland-ca.gov.uk. For this meeting, this means that your submission must be received in this office by **12noon on Wednesday, 27 September 2017**.

If you wish to ask a question at the meeting, you are required to submit the question in writing to info@westofengland-ca.gov.uk no later than 3 working days before the meeting. For this meeting, this means that your question(s) must be received in this office by **5pm on Friday, 22 September 2017**.

6. PETITIONS

Any member of the public in the West of England Combined Authority may present a petition at a West of England Combined Authority Audit Meeting.

7. TERMS OF REFERENCE

To consider and agree the Terms of Reference for the Committee

8. APPOINTMENT PROCESS FOR INDEPENDENT MEMBER

To agree the appointment process for an Independent Member for the Committee

9. INTERNAL AUDIT PLAN

To consider the draft internal audit plan for 2017/18.

10. EXTERNAL AUDIT UPDAT - VERBAL

To receive a verbal update from the appointed External Auditors (Grant Thornton).

11. TREASURY MANAGEMENT STRATEGY 2017/18

To note the Treasury Management Strategy for 2017/18

12. WORK PLAN OF THE COMMITTEE

To consider and agree the proposed workplan.

13. LAST ITEM: ANY OTHER ITEM THE CHAIR DECIDES IS URGENT

Next meeting: 25 January 2018

ITEM: 7

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 28 SEPTEMBER 2017

REPORT TITLE: AUDIT COMMITTEE – TERMS OF REFERENCE

AUTHOR: TIM RICHENS

Purpose of Report

1. To present the proposed Terms of Reference for the Audit Committee for approval.

Issues for Consideration

2. To consider the areas proposed in light of the role of the Audit Committee and its areas of delegation.

Report Narrative / Main Content

- 3.1 The Terms of Reference of the Audit Committee are proposed as set out at Appendix 1. These take account of the roles of Audit Committee both in the wider public sector and those of a normal Local Authority.
- 3.2 The functions of the Audit Committee as set out in the WECA constitution should consider the following –
 - a) reviewing and scrutinising the authority's financial affairs; - Focus the Council's Accounts and work of External Audit and Internal Audit
 - b) reviewing and assessing the authority's risk management, internal control and corporate governance arrangements; - Focus the Annual Governance Review and work of Internal Audit and External Audit
 - c) reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; - Focus the work of External Audit and Internal Audit
 - d) making reports and recommendations to the combined authority in relation to the reviews they have conducted.

3.3 The Committee is asked to review and approve the attached Terms of Reference in order to be able to carry out its role on behalf of WECA.

3.4 Annually the Committee will review its Terms of Reference when compiling its Annual Report

Consultation:

4. Report content consulted with the Director of Corporate Services and Monitoring Officer.

Public Sector Equality Duties:

5. No direct implications.

Economic Impact Assessment:

6. No direct implications.

Finance Implications:

7. No direct implications.

Legal Implications:

8 No direct implications

Land/Property Implications;

9 No direct implications.

Human Resources Implications:

10 No direct implications

Recommendation:

11 To approve the Terms of Reference set out at Appendix 1.

Report Author:

West of England Combined Authority Contact: Tim Richens – Director of Corporate Services, Tel: 0117 428 6210

Background Papers

None.

Item 7 - Appendix 1 - WECA Audit Committee Draft Terms of Reference

The Audit Committee has the following responsibilities:

1. To approve on behalf of WECA its Annual Accounts, as prepared in accordance with the statutory requirements and guidance;
2. To approve the External Auditors' Audit Plan and to monitor its delivery and effectiveness during the year;
3. To approve the Internal Audit Plan and to monitor its delivery and effectiveness during the year;
4. To consider, prior to signature by the Mayor and Chief Executive, the Annual Governance Statement in accordance with statutory requirements and guidance;
5. To review periodically WECA's Treasury Management performance and overall risk management framework and make recommendations where appropriate;
6. To review periodically WECA's key financial governance procedures, i.e. Financial Regulations, Contract Standing Orders, Anti-Fraud & Corruption Policy and to recommend any necessary amendments;
7. To consider the annual Audit Letter from the External Auditor and to monitor progress on accepted recommendations;
8. To monitor and promote good corporate governance within WECA and in its dealings with partner bodies and contractors, including review of WECA's Code of Corporate Governance and in any such other ways as the Committee may consider expedient (within the budget agreed by WECA);
9. To consider and make recommendations of any other matters relating to corporate governance which are properly referred to the Committee or which come to its attention;
10. To make an annual report to WECA on the work [and findings] of the Committee, including (if necessary) any measures necessary to improve the effectiveness of the Committee.

ITEM: 8

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 28 SEPTEMBER 2017

REPORT TITLE: AUDIT COMMITTEE – APPOINTMENT OF INDEPENDENT CO-OPTED MEMBER

AUTHOR: TIM RICHENS

Purpose of Report

1. To present the proposed process for the recruitment of the Independent Co-Opted Member.

Issues for Consideration

2. To consider the proposed process in light of the role of the Terms of Reference of the Audit Committee and its areas of delegation.

Report Narrative / Main Content

- 3.1 In relation to the Audit Committee, there is a requirement for the Committee to have at least 1 member who is an independent person.
- 3.2 The definition of an independent person is:
 - (a) Is not an existing member or co-opted member or officer of the combined authority;
 - (b) Is not an existing member or co-opted member or officer of a constituent council or a parish council for any of the three constituent Authorities making up the Combined Authority
 - (c) Is not a relative or close friend of a person within paragraph (a) or (b); and
 - (d) Was not any anytime during the previous 5 years holding an appointment as follows -
 - (i) A member, co-opted member or officer of the authority (WECA); or
 - (ii) A member, co-opted member or officer of a parish council for any of the three constituent Authorities making up the Combined Authority
- 3.3 In terms of making the appointment, the Order prescribes the requirement for the appointments to be made following
 - The role being advertised in such a way as to bring the role to the attention of the public,
 - Applicants having made an application to fill the post and

- The appointment has been approved by the majority of the members of the combined authority.

3.4 The process for selection and recruitment of the Independent Co-Opted member is the responsibility of the Audit Committee. Given these requirements and the general belief that independent lay members provide a further check and add value to the business of the Audit Committee, it is recommended that an Appointments Panel made up of the Chairman of the Audit Committee, Director of Corporate Services and one other Audit Committee Member be appointed to undertake the recruitment process and make a recommendation to WECA.

3.5 The appointment panel will be responsible for agreeing the advert, person specification, shortlisting and interviewing potential candidates with the support of officers.

3.6 The Committee is asked to approve the process and a nomination is sought to support the Chair of the Audit Committee and Director of Corporate Services on the Appointments Panel.

Consultation:

- 4. None.

Public Sector Equality Duties:

- 5. No direct implications.

Economic Impact Assessment:

- 6. No direct implications.

Finance Implications:

- 7. No direct implications.

Legal Implications:

- 8 No direct implications

Land/Property Implications;

- 9 No direct implications.

Human Resources Implications:

- 10 The report covers the appointment process of an independent member.

Recommendation:

- 11 To approve the recruitment process for an independent member to the Audit Committee and the members of the appointments panel.

Report Author: Tim Richens

West of England Combined Authority Contact: Tim Richens – Director of Corporate Services. Tel: 0117 428 6210

Background Papers

None.

ITEM: 9

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 28 SEPTEMBER 2017

REPORT TITLE: WECA - INTERNAL AUDIT PLAN

AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)

Purpose of Report

1. To present the indicative Internal Audit Plan for 2017/18 to the Audit Committee.

Issues for Consideration

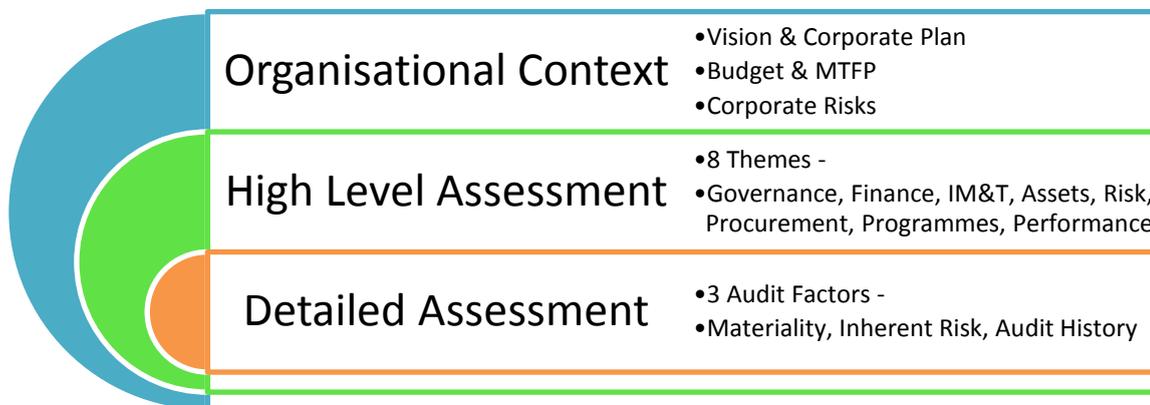
2. To consider the areas included within the Audit Plan in the context of WECA being a new organisation and the core assurances it requires from its audit function on its core systems and governance framework.
3. To ensure that the Audit Committee can rely on the independent assurance given by its Internal Auditor's.

Report Narrative / Main Content

Internal Audit Annual Plan 2017/18 (Appendix 1)

- 4.1 The Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan. As this is the first year of WECA's inception there is no audit history or prior risk assessment to rely on and as such the plan attached at Appendix A is indicative only and subject to change as WECA's organisational requirements start to become established.
- 4.2 The first year's Audit Plan will therefore focus on the following main themes –
 - a) Assurance on Core Systems;
 - b) Assurance on Core Governance framework;
 - c) Advice on new systems and processes;
- 4.3 The indicative Plan has been subject to consultation with the Director of Corporate Services (S151 Officer) and WECA's interim strategic management team. The Internal

Audit service (Audit West) use the reasonable assurance model to compile the plan, of which the essential elements are as follows –



- 4.4 As this is the first year a full assessment has not been carried out but the principles of the model have been used in considering topic areas. Notwithstanding the assessment, specific circumstances (such as a significant reputational issue or request of S151 Officer or Senior Management Team may on occasion mean that a low scoring topic is nevertheless included in the Plan.
- 4.5 Resources available to deliver the Plan will also inform the quantum of the Plan which amounts to approximately 80 days in total plus a contingency sum. Broadly the plan attached focuses on the Audit Universe and actual coverage in 2017/18 will focus on priorities within the key themes working closely with the Director of Corporate Services.
- 4.6 In addition to completing the Internal Audit Reviews, Audit West will -
- Provide support to the corporate governance framework within WECA including completing the Annual Governance review work required to publish WECA's Annual Governance Statement;
 - Complete 'Follow-up' reviews to verify the implementation of Internal Audit Review recommendations.
 - Provide support to the Council's risk management framework;
 - Carry out where requested the co-ordination and Investigation roles to complete the work required through any national data matching exercises such as the 'National Fraud Initiative';
 - Provide advice on systems of internal control including WECA policies and procedures. This is particularly important when systems and processes are being developed or changed;
 - Provide support to WECA on carrying out investigations in relation to financial irregularities. This may require Audit West staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures;
 - Provide a service to verify the accuracy of specific grant claims and when required provide assurance to the WECA's Chief Executive or other officers who are required to 'sign-off' Claim Certificates.
- 4.8 The Plan will remain fluid during the year to enable the service to respond to WECA's changing risk environment and the Committee will receive an update on the work undertaken later in the year.

Consultation:

5. Draft Plan was consulted with the WECA Senior Management team and Director of Corporate Services.

Public Sector Equality Duties:

6. No direct implications.

Economic Impact Assessment:

7. No direct implications.

Finance Implications:

8. No direct implications, cost of service is within the existing approved Budget.

Legal Implications:

9. No direct implications

Land/Property Implications;

10. No direct implications.

Human Resources Implications:

11. No direct implications – Audit West are a contracted provider.

Recommendation:

12. To note the report and approve the Internal Audit Plan attached at Appendix 1.

Report Author: Jeff Wring (Audit West)

West of England Combined Authority Contact: Tim Richens – Director of Corporate Services: Tel: 0117 428 6210

Background Papers

None.

WEST OF ENGLAND
Combined Authority
BATH & NORTH EAST SOMERSET
BRISTOL
SOUTH GLOUCESTERSHIRE



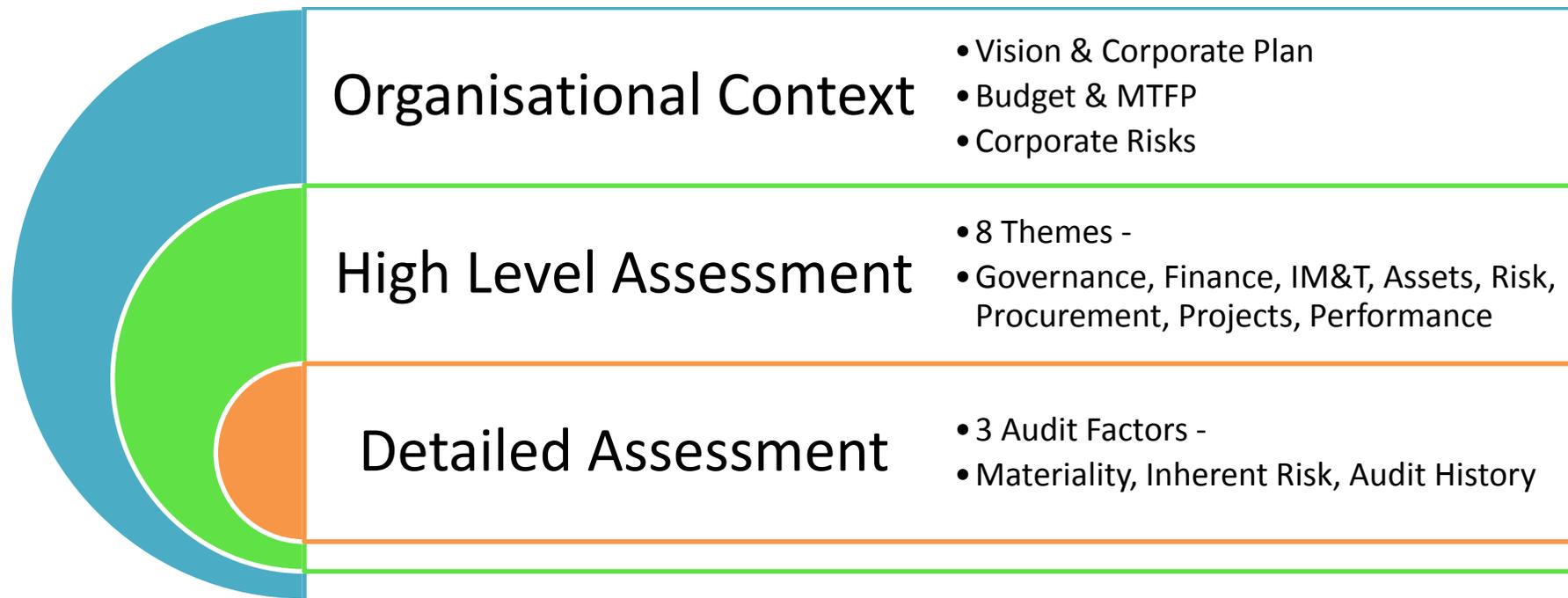
Item 9 Appendix 1 – Internal Audit Plan 2017/18

Delivering Independent Assurance to the Public Sector

Reasonable Assurance Model – Producing the Audit Plan

The model is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Head of Audit to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year.

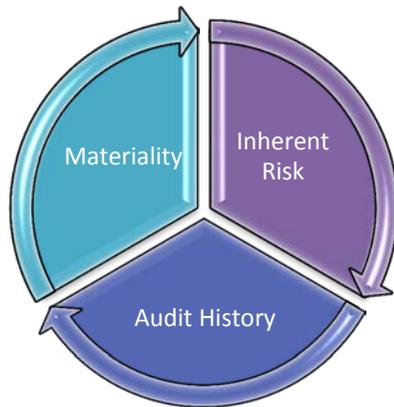
This involves considering current context of the Authority, what a ‘healthy organisation’ requires to operate effectively and then assessing independently against this in a staged process as follows –



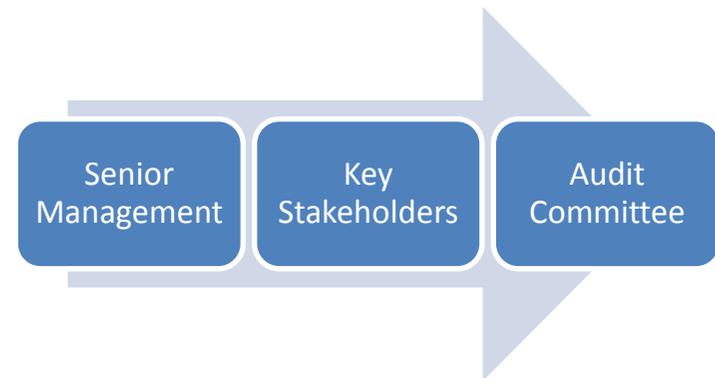
HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE



DETAILED CRITERIA – AUDIT PLAN LISTING



CONSULTATION & APPROVAL



Methodology, Approach & Standards

Introduction:

Internal Audit is an assurance function that provides an independent and objective opinion to WECA on its control environment. Scope of Internal Audit activity is not limited to WECA's financial systems and records, but extends to all functions of WECA.

Internal Audit is required to compile each year a Plan of its intended activity for approval by WECA's Audit Committee.

Internal Audit is required to be compliant with the Public Sector Internal Audit Standards and designs its methodologies to ensure it meets these standards and considers all available best practice.

Independence:

A critical element of the performance of Internal Audit is independence from the activities audited. This enables the function to form impartial and effective judgment for the opinions and recommendations made.

To help ensure independence, Internal Audit is part of a partnership arrangement with staff employed by Bath & North East Somerset Council and so is not fettered by any management reporting line restrictions. It also has unrestricted access to Senior Management & Members, particularly, the Mayor, Chair of the Audit Committee, the Chief Executive, Director of Corporate Services and the Council's Monitoring Officer. Additionally, the Head of Audit West (responsible for the partnership arrangements) reports in his own name and acts as Chief Internal Auditor for WECA.

Internal Audit forms part of the core governance structure of the organisation and its input is required as part of the WECA's Annual Governance review which results in the publication of WECA's Annual Governance Statement.

Relationship with WECA's External Auditor:

As part of their audit of WECA's financial statements, WECA's external auditor has a dedicated plan from which they carry out specific reviews of WECA's activities. To facilitate this work they will issue a plan for the audit of the 2017/18 accounts.

The External Auditors carry out their own risk assessment methodology to assist in agreeing their workplan.

The working relationship between Internal Audit and the External Auditors carrying out their respective functions is important and must take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on WECA's financial statements, whilst the Internal Audit function is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.

The External Auditors whilst not formally required to seek reliance on the work of Internal Audit take into account the outcomes of all audit activity and consider their approach and plans to maximise their effectiveness and there is regular contact between the two parties.

Performance Management

The function recognises the importance of regular and effective performance management to ensure an effective service is being operated. A performance dashboard is produced and reported to each key stakeholders, including the Audit Committee.

Performance Indicators and Measures are set in the following areas –

Completion of the Plan
Audit Recommendations Implemented
Assurance Levels Provided
Productivity
Customer Satisfaction
Numbers of Investigations
Unplanned Work

Preparation of the Annual Plan: Reasonable Assurance Model

Internal Audit has adopted a risk based approach in determining its Annual Plan using the reasonable assurance model.

Stage 1 - Assess levels of Assurance & Risk over 8 key themes

- Corporate Governance
- Financial Management
- Performance Management
- Risk Management
- Asset Management
- Procurement (& Commissioning)
- Programme & Project Management
- Information Management & Technology

Stage 2 – Risk Assessment using 3 key factors

- Materiality
- Inherent Risk
- Audit History

Stage 3 – Consult & Approve the Plan

- Senior Management
- Audit Committee

Unplanned Work

The plan also allows for a contingency for any unplanned work. Unplanned work consists of the investigation of irregularities and prioritised 'consultancy' work. If this contingency number of days is fully utilised and further unplanned work is required it is the intention that planned audit reviews, with the lowest risk rating, will be replaced by the unplanned work activity.

In view of the ever changing environment in which Local Government exists the Plan will be reconsidered at regular intervals to confirm that the remaining work planned is still appropriate. This process will be carried out in consultation with Senior Management and in particular the S151 Officer who acts as the principal client for the function.

Methodology:

Individual Audit Reviews:

At the commencement of each Audit Review, an Audit Brief (**Annex A**) will be prepared and issued to the relevant Head of Service/Director and responsible Manager. This Brief will identify the objectives of the review and areas to be covered. This Brief will be subject to agreement between the client and the auditor.

At the conclusion of each review, an end of review meeting will be held with the client to discuss the matters arising. The Head of Service/Director may be involved at this stage. Wherever possible this meeting will occur before a 'draft' audit report is produced.

Following the conclusion of the audit review work a 'draft' audit report will be issued to Management. The report will provide a graded 'Assurance Level' (see ANNEX B); a summary of identified strengths & weaknesses; and a detailed action plan recording weaknesses and recommendations.

The nominated responsible Manager is required to respond to the audit findings and recommendations and prepare an action implementation plan recording responsible officers and timescale for implementation.

The management comments and implementation plan are compiled into a 'final' version of the report. This is issued to the recipients of the 'draft' version and the Head of Service/Director. It should be noted that the relevant Director and Audit Committee will be informed of the outcome of any work which falls into a level 1 rating.

Audit Review 'Follow-Ups':

Internal Audit reports / recommendations are subject to "follow-up". The objective of this process is to ensure actions are implemented within the agreed timescales.

All recommendations are subject to 'follow-up'. The process is dependent on the risk classification of the weaknesses / recommendations. For all 'Low' and 'Medium' risk recommendations, management are required to confirm implementation of actions. For all 'Critical' and 'High' risk recommendations Internal Audit will carry out testing to confirm implementation.

The findings of Audit Review 'Follow-Up' will be reported to the relevant manager(s) and Head of Service/Director. As stated above the relevant Director will be informed of the outcome of this work where there is a level 1 rating.

Investigation of Fraud & Corruption:

Senior Management have the primary responsibility for the prevention and detection of fraud and other financial irregularities. Internal Audit will however ensure it provides a lead in supporting management in this area, including design of appropriate strategies, policies and levels of control and will be alert in all their work to the possibility of theft, fraud, corruption and bribery.

Members of staff working within WECA are required to report any possible wrongdoing. Internal Audit will provide a professional response to any such reports received. In this respect, attention is drawn to WECA's own Anti-fraud & Corruption and Whistle blowing policies.

Internal Audit will conduct all investigations relating to fraud and corruption and do so according to professional standards, all applicable legislation and internal policies and procedures relating to staff conduct and the disciplinary process.

ANNEX A - AUDIT BRIEF

• Title	{Title}	
• Purpose of Review	To review the risks and internal controls related to the scope of the audit (detailed below) and provide management with an opinion on the adequacy of the framework of internal control.	
• Scope of Review	<p>The audit will review the following key risks/control objectives:</p> <ul style="list-style-type: none"> • Ensure..... • Ensure..... • Ensure..... 	
• Key Stages of Review Process	<pre> graph TD A((Agree Brief with Client)) --> B((Compile & Issue Draft Report)) B --> C((Agree Opinion & Final Report with Client)) C --> D((Implement & Follow-up)) D --> E((Discuss Summary Findings with Client)) E --> F((Testing & Field Work)) F --> A </pre>	
• Timeframe	Fieldwork Starts: {Date}	Draft Report: {Date}
• Key Contacts	Lead Auditor: {Name}	Lead Client: {Name}
• Service Charter & Professional Standards	<p>Our customer service charter outlines what you can expect from us and what in turn we need from you to complete this audit.</p> <p>All audit work is reported to and monitored by the Audit Committee. All audit work complies with Public Sector Internal Audit Standards.</p>	

Audit Opinions***Assurance Level 5 (Excellent)***

The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary.

• *Assurance Level 4 (Good)*

The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary.

• *Assurance Level 3 – (Satisfactory)*

The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.

• *Assurance Level 2 – (Weak)*

The systems of internal control are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce risk exposure.

• *Assurance Level 1 – (Poor)*

The systems of internal control are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee.

Contact Details

Head of Audit West –	Jeff Wring 01225 477323 jeff_wring@bathnes.gov.uk
Audit Team Leader (WECA) -	Mark Wheeler 01225 477286 Mark_wheeler@bathnes.gov.uk
Address	Audit West Resources The Guildhall High Street BATH, BA1 5AW

DRAFT PLAN/AUDIT UNIVERSE – YEAR 1 (2017/18)

Internal Audit Areas	Reasonable Assurance Theme	Directorate (Lead Service)
Core Financial Systems		
Accounting Ledger	Financial Management	Corporate Services
Creditors	Financial Management	Corporate Services
Debtors	Financial Management	Corporate Services
Payroll	Financial Management	Corporate Services
Reconciliation Processes	Financial Management	Corporate Services
Insurance	Financial Management	Corporate Services
Procurement	Procurement	Corporate Services
Financial Management		
Budget Management (Revenue & Capital)	Financial Management	Corporate Services
Medium Term Financial Planning	Financial Management	Corporate Services
Treasury Management	Financial Management	Corporate Services
Risk Management	Risk Management	Corporate Services
Financial Rules & Regulations	Financial Management	Corporate Services
Counter Fraud Arrangements	Risk Management	Corporate Services
Corporate Governance		
Annual Governance Review (AGS)	Corporate Governance	Corporate Services
Corporate Plan & Performance Management	Performance Management	Corporate Services
Decision Making (Constitution)	Corporate Governance	Corporate Services
Assurance Framework & Schemes of Delegation	Corporate Governance	Corporate Services
Codes of Conduct & Declarations of Interest	Corporate Governance	Corporate Services
Code of Corporate Governance	Corporate Governance	Corporate Services

Internal Audit	Reasonable Assurance Theme	Directorate (Lead Service)
Core IT Systems		
Network Management	IM&T	Corporate Services
Firewalls & Security	IM&T	Corporate Services
Back-Ups & Resilience	IM&T	Corporate Services
Business Critical IT Systems	IM&T	Corporate Services
Accountable Body Functions		
Concessionary Travel Scheme	Risk & Performance Management	TBC
Key Routes Network	Asset, Risk & Performance Management	TBC
Adult Education	Risk & Performance Management	TBC
Infrastructure Schemes & Projects	Programme Management, Asset Management, Risk Management, Performance Management	TBC
WOE Office (Accountable Body Status from B&NES)		
Regional Infrastructure Fund	Financial Management	Corporate Services
Economic Growth Fund	Financial Management	Corporate Services
Governance (City Deal links)	Corporate Governance	Corporate Services

ITEM: 11

**REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT
COMMITTEE**

DATE: 28 SEPTEMBER 2017

**REPORT TITLE: TREASURY MANAGEMENT STRATEGY STATEMENT
AND INVESTMENT STRATEGY 2017/18**

AUTHOR: TIM RICHENS

Purpose of Report

1. To present the Treasury Management Strategy Statement and Investment Strategy 2017/18.

Issues for Consideration

2. To consider the report setting out the Treasury Management Strategy including authorised lending institutions in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

Report Narrative / Main Content

- 3.1 The Treasury Management Strategy for 2017/18 (attached) was approved by the WECA Committee on 1 March 2017 as part of the transitional arrangements prior to the Mayoral election and the full implementation of the WECA Audit and Scrutiny arrangements.
- 3.2 The WECA is required to adopt the CIPFA Treasury Management in Public services Code of Practice 2011 Edition, which requires the WECA to approve a Treasury Management Strategy before the start of each financial year. In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the WECA to approve an investment strategy before the start of each financial year.
- 3.3 The approval process would normally involve the consideration and comment by this Committee prior to approval by the WECA, however this was not possible due to the transitional arrangements for the first year of operation.
- 3.4 The Committee is therefore asked to note the attached report recognising the normal process will be applied for 2018/19.

- 3.5 The WECA has appointed Arlingclose as its external independent Treasury Advisors and they will provide a training session for this Committee prior to the consideration of the draft Treasury Management Strategy for 2018/19

Consultation:

4. The Treasury Management Strategy Statement and Investment Strategy 2017/18 was prepared in full consultation with the WECA independent Treasury Advisors.

Public Sector Equality Duties:

5. No direct implications.

Economic Impact Assessment:

6. No direct implications.

Finance Implications:

7. The Approved WECA Budget for 2017/18 included appropriate estimates for interest earnings from the short term investment of WECA cash flows in accordance with the Strategy.

Legal Implications:

- 8 No direct implications

Land/Property Implications;

- 9 No direct implications.

Human Resources Implications:

- 10 No direct implications

Recommendation:

- 11 To note the Treasury Management Strategy Statement and Investment Strategy 2017/18.

Report Author: Tim Richens

West of England Combined Authority Contact: Tim Richens – Director of Corporate Services – Tel: 0117 428 6210

Background Papers

None.

ITEM 10

WEST OF ENGLAND COMBINED AUTHORITY (“WECA”)

DATE: 01 MARCH 2017

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2017/18

Purpose of Report

1. The report sets out Treasury Management Strategy including authorised lending institutions in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

ATTACHMENTS TO THIS REPORT

- Appendix 1 - Treasury Management Strategy 2017/18
- Appendix 2 - Investment Strategy 2017/18
- Appendix 3 - Authorised Lending List
- Appendix 4 - Economic and Interest Rate Forecast

Issues for Consideration

2. The WECA is required to adopt the CIPFA Treasury Management in Public services Code of Practice 2011 Edition, which requires the WECA to approve a Treasury Management Strategy before the start of each financial year. In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the WECA to approve an investment strategy before the start of each financial year.

2017/18 Treasury Management & Investment Strategy

3. The Local Government Act 2003 requires the Council to ‘have regard to’ the Prudential Code and to set Treasury Indicators for the next three years to ensure that the WECA’s capital investment plans are affordable, prudent and sustainable.
 - 3.1. The Act therefore requires the WECA to set out its treasury strategy for borrowing and to prepare an Investment Strategy; this sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.
 - 3.2. The suggested strategy for 2017/18 in respect of the following aspects of the treasury management function is based on officer views on interest rates, supplemented with leading market forecasts provided by the WECA’s treasury advisor.

3.3. The strategy covers:

- Treasury limits in force which will limit the treasury risk and activities of the WECA;
- Treasury Management Indicators;
- The current treasury position;
- The borrowing requirement;
- Prospects for interest rates;
- The borrowing strategy;
- The investment strategy.

3.4. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the WECA to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby the impact on the revenue budget from: -

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects, and
- increases in the Minimum Revenue Provision for capital expenditure

are limited to a level which is affordable within the projected income of the WECA for the foreseeable future.

3.5. The revised CIPFA Treasury Management in Public services Code of Practice 2011 Edition, requires the Treasury Management Strategy and policies to be scrutinised by the WECA Audit Committee and this report will be considered at their first meeting, when established, in 2017/18.

3.6. The proposed Treasury Management Strategy is attached as Appendix 1 and includes the Treasury Management Indicators required by the Treasury Management Code.

3.7. The indicators provide for a no borrowing to be undertaken by the WECA during 2017/18 pending further detailed work to be undertaken of project prioritisation and delivery by the WECA. The proposed Budget which will be brought to the WECA on 15th March 2017 will reflect this position accordingly.

3.8. Appendix 1 also sets out that the WECA will have no debt at 31st March 2017.

3.9. The 2017/18 Investment Strategy is attached at Appendix 2. This sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy Officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press.

3.10. The Counterparty listing in Appendix 3 includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in Appendix 2 as at 31st December 2016 are included in the listing in Appendix 3.

3.11. Interest rate forecasts from the WECA's interim Treasury advisors (Arlingclose) are included in Appendix 4.

Legal Implications

4. This report fulfils the WECA's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance when setting the Treasury Management Strategy.

Human Resources Implications

5. None directly – temporary arrangements for the provision of Treasury related services from Bath & North East Somerset Council have been put in place by the interim Chief Finance Officer .

Environmental Implications

6. None directly.

Social Implications

7. None directly.

Economic Implications

8. These are set out within the body of the report and the appendices. The proposed WECA Budget will include appropriate estimates for interest earnings from the short term investment of WECA cash flows.

Equality Impact Assessment

9. There are now direct implications arising from this report.

Risks, Mitigations and Opportunities

10. The WECA's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management advisers – Arlingclose.
- 10.1 The 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires effective scrutiny of the Treasury Management Strategy and policies. The WECA Audit Committee will carry out this scrutiny.

RECOMMENDATIONS

The WECA is recommended to:-

1. Approve the proposed Treasury Management Strategy Statement at Appendix 1.
2. Approve the Investment Strategy as detailed in Appendix 2.
3. Agree that for transitional purposes, the Treasury Management Strategy and the Investment Strategy may be applied with immediate effect to support any investment of cash balances which may be required in the current financial year (2016/17)
4. Note that the relevant Budget proposals for 2017/18 will be based upon the assumptions and indicators set out in these strategies.

Author

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Background Papers

None.

TREASURY MANAGEMENT STRATEGY – 2017/2018

Introduction

The WECA is recommended to adopt the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Fully Revised 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

As a result of Treasury managements activities the WECA will be 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 WECA's treasury management strategy.

Treasury Borrowing Limits for 2017/18 to 2019/20

There is a statutory duty under s.3 of the Local Government Act 2003, and supporting regulations, for the WECA to determine and keep under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'.

The Authority must have regard to the Prudential Code when setting the Affordable Borrowing Limit. The Code requires an authority to ensure that its total capital investment remains within sustainable limits.

The Affordable Borrowing Limit must include all planned capital investment to be financed by external borrowing and any other forms of liability, such as credit arrangements. The Affordable Borrowing Limit is to be set on a rolling basis for the forthcoming year and two successive financial years.

It is proposed to set this limit at £nil whilst the WECA considers its capital spending plans and priorities in accordance with its approved Assurance Framework.

Treasury Management Indicators for 2017/18 – 2019/20

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

Security: average credit rating

The Authority will measure its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. Unrated investments are assigned a score based on their perceived risk.

	2017/18
Minimum Portfolio average credit rating	A-

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 an amount of net principal borrowed will be:

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposures	100%	100%	100%
Upper limit on variable interest rate exposures	10%	10%	10%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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 will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	75%	0%
24 months and within five years	75%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

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.

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 proportion of total long-term principal sum invested to final maturities over 364 days will be:

	2017/18	2018/19	2019/20
Limit on proportion of principal invested over 364 days	30%	30%	30%

Borrowing limits

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2017/18	2018/19	2019/20
Operational boundary – borrowing	£nil	£nil	£nil
Operational boundary – other long-term liabilities			
Operational boundary – TOTAL			
Authorised limit – borrowing	£nil	£nil	£nil
Authorised limit – other long-term liabilities			
Authorised limit – TOTAL			

External Context & Prospects for Interest Rates (Arlingclose Ltd)

The Chief Finance Officer has appointed Arlingclose as the interim treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following section gives their commentary on the economic context and views on the prospects for future interest rates.

Economic background: The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets were wrong-footed by the referendum outcome and have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook: Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

Arlingclose Interest Rate Forecasts

Arlingclose central interest rate forecast – December 2016

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield*
Q1 2017	0.25	0.25	0.60	1.70
Q2 2017	0.25	0.25	0.50	1.50
Q3 2017	0.25	0.25	0.50	1.40
Q4 2017	0.25	0.30	0.50	1.40
H1 2018	0.25	0.30	0.50	1.40
H2 2018	0.25	0.30	0.55	1.43
H1 2019	0.25	0.30	0.77	1.53
H2 2019	0.25	0.30	0.90	1.63

* The Authority can currently borrow from the PWLB at 0.80% above gilt yields

The Authority Budget will assume investment interest rates to remain constant at average rate of 0.30% for 2017/18 & beyond, reflecting the planned short-term duration of investments.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 4.

Local Context

Current Portfolio Position

The Authority currently holds no borrowing and this is not expected to change during 2017/18.

The investments will be dependent on actual cash flows during 2017/18 although it is likely that the first gainshare payment of £30M will be received from government in March 2016/17. As such it is proposed that Investment Strategy will apply with immediate effect.

Borrowing Strategy

As at 31st March 2017, the Authority will hold no long-term loans, no borrowing is anticipated during 2017/18. Therefore a debt-free strategy will be maintained until such a time as the Authority has been able to determine a more detailed capital strategy together agreement of a prioritised capital investment programme.

The funding of this programme will then be considered as part of the business case development for specific projects and overall cash flow requirements for programme delivery.

INVESTMENT STRATEGY

Investment Policy

Both the CIPFA Code and the CLG 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.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Authority's Treasury Management Practices – Schedules.

The strategy of this policy is to set outer limits for treasury management operations. In times of exceptional market uncertainty, Authority Officers will operate in a more restrictive manner than the policy allows, as has been the case during recent years.

West of England Revolving Investment Fund (RIF)

Previously Bath and North East Somerset Council was the Accountable Body for the West of England Revolving Investment Fund, and acted as an agent holding Government grants until they are ready to be distributed to Local Authorities for infrastructure works over the coming years. The role is expected to transfer to the WECA during 2017/18 subject to appropriate agreement with CLG.

The funds are invested primarily to protect the capital, and in order to achieve this high level of capital security, investments are made solely with UK Central Government and UK Local Authorities. Any interest earned on these investments is reinvested into the fund.

Local Growth Fund (LGF)

Similarly it is anticipated for 2017/18 onwards, the WECA will act as Accountable Body for Local Growth Fund (LGF).

LGF Investments will be made in line with the Authority's overall Treasury Management Strategy. Interest is earmarked to fund the Authority's corporate support and governance costs that come with performing the Accountable Body function for the LEP.

Approved Investment Counterparties

The Authority may invest its surplus funds with any of the counterparties in the following table, subject to the cash and time limits shown:

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Central Govt.	N/A	N/A	£unlimited 50 Years	N/A	N/A
AAA	£10m 5 Years	£15m 20 Years	£10m 50 Years	£10m 20 Years	£5m 20 Years
AA+	£10m 5 Years	£15m 10 Years	£15m 25 Years	£5m 10 Years	£5m 10 Years
AA	£10m 4 Years	£15m 5 Years	£15m 15Years	£5m 5 Years	£5m 10 Years
AA-	£10m 3 Years	£15m 4 Years	£10m 10 Years	£5m 4 Years	£5m 10 Years
A+	£10m 2 Years	£15m 3 Years	£10m 5 Years	£5m 3 Years	£5m 5 Years
A	£10m 13 Month	£10m 2 Years	£10m 5 Years	£5m 2 Years	£5m 5 Years
A-	£10m 6 Months	£10m 13 months	£10m 5 Years	£5m 13 Months	£5m 5 Years
BBB+	£5m 3 Months	£10m 6 Months	£10m 2 Years	£3m 6 months	£3m 2 Years
BBB	£5m Overnight	£5m 3 Months	N/A	N/A	N/A
None	£1m 6 Months	N/A	£10m 25 Years	£50,000 5 Year	£3m 5 Years
Pooled Funds	£10m Per Fund				

The majority of the Authority's investments will be made for relatively short periods and in higher credit rated investments, giving priority to security and liquidity ahead of yield. However, where the Authority has identified a core cash balance that is not required for any cash outflows in the short term, these funds will be considered suitable for a wider range of investments, with a greater focus on achieving a level of investment income that can support Authority services. These may include long-term investments with registered providers of social housing, small businesses or corporate bond funds where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed, and no such investment will be made without a specific recommendation from the Authority's treasury management adviser.

In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

Banks Unsecured

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

Current Bank Account: The Authority's current accounts are held with National Westminster Bank plc (NatWest), which is close to the bottom of the above credit rating criteria. The Authority will treat NatWest as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day, subject to the bank maintaining a credit rating no lower than BBB-.

Banks Secured

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

Government

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

Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

Registered Providers

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds

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

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

Risk Assessments & Credit Ratings

The Authority (through its appointed Treasury service provider) uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality, unless an investment-specific rating is available.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Authority's credit rating criteria are set to ensure that it is unlikely that the Authority will hold speculative grade investments, despite the possibility of repeated downgrades.

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

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

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

If further counterparties are identified during the year that meet the minimum credit rating criteria and conform to the other criteria set out in the Treasury Management Practice Schedules, they can be added to the lending list following the agreement of the Chief Financial Officer.

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

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

Foreign countries

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £15m per country for those rated AAA and £10 million per country for those rated AA+. There is no limit on investments in the UK, irrespective of the sovereign credit rating.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Specified Investments

Specified investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The CLG Guidance defines specified investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish Authority or community Authority, or
 - a body or investment scheme of "high credit quality".

The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-Specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown below.

	£m
Total long-term investments	50
Total investments without credit ratings or rated below A-	10
TOTAL	60

The time limit for long-term investments in UK Local Authorities & Local Government will be 50 years.

Long-term investments will be limited to 50% of a counterparty’s limit where it meets the above credit rating criteria (except the UK Government). The combined value of short-term and long-term investments with any organisation will not exceed the limits for specified investments highlighted above.

Liquidity management

The Authority regularly reviews and updates its cash flow forecasts to determine the maximum period for which funds may prudently be committed.

Limits on long-term investments are set by reference to the Authority’s medium term financial plan, levels of reserves and cash flow forecast.

Planned investment strategy for 2017/18

Investments are made in three broad categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Bank deposit accounts and Money Market Funds will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. Preference will continue to be given to investments with UK banks with approved credit ratings.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Decisions on making longer term investments (i.e. over 1 year) will be considered during the year after taking account of the interest rate yield curve, levels of core cash and the amount of temporary internal borrowing related to funding of capital spend. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds may be used to diversify the portfolio. The use of external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments may be considered.

The Authority has already reduced its cash position to repay fixed interest debt held at higher rates. The continuing low level of short-term interest rates will mean the on-going use of internal cash resources to minimise the new borrowing. This approach will be regularly reviewed in light of market conditions and the wider economic outlook.

Review Reports

The revised CIPFA Code of Practice requires that both mid year and annual review reports on treasury activities are reported to Full Authority.

Other Matters

The CLG Investment Guidance also requires the Authority to note the following matters each year as part of the investment strategy:

Treasury management advisers

The Chief Financial Officer has appointed Arlingclose Limited as the interim treasury management advisers and receives specific advice on investment, debt and capital finance issues, although responsibility for final decision making remains with the Authority and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is monitored by officers on a regular basis, focusing on supply of relevant, accurate and timely information across the headings above.

Investment training

The needs of the staff (either directly employed or those within our appointed treasury service provider) for training in investment management will be assessed every year or when the responsibilities of individual members of staff change.

Staff should regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Proposed Counterparty List - Unsecured Bank Investments

2017/18										
CRITERIA										
	Max Duration	Council Limit (£m)	FITCH RATINGS			Moody's Ratings		S&P Ratings		
			S/Term	L/Term	Support	S/Term	L/Term	S/Term	L/Term	
UK Banks			Sovereign Rating			AA	Aa1	Aaa		
Barclays Bank plc	6 months	10	F1	A	5	P-1	A1	A-2	A-	
Close Brothers Ltd	13 months	10	F1	A	5	P-1	Aa3			
Goldman Sachs International	13 months	10	F1	A		P-1	A1	A-1	A+	
HSBC Bank plc	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-	
Lloyds Banking Group										
Lloyds Bank plc	2 Years	10	F1	A+	5	P-1	A1	A-1	A	
Bank of Scotland plc	2 Years	10	F1	A+	5	P-1	A1	A-1	A	
Royal Bank of Scotland Group										
National Westminster Bank plc	3 Months	5	F2	BBB+	5	P-2	A3	A-2	BBB+	
Royal Bank of Scotland plc	3 Months	5	F2	BBB+	5	P-2	A3	A-2	BBB+	
Santander UK plc (domiciled in UK)	13 months	5	F1	A	2	P-1	Aa3	A-1	A	
UK Building Societies										
Nationwide	13 months	10	F1	A	5	P-1	Aa3	A-1	A	
Coventry	13 months	10	F1	A	5	P-1	A2	-	-	
Leeds	6 months	10	F1	A-	5	P-2	A2	-	-	
Foreign Banks										
Australia			Sovereign Rating			AAA	Aaa	AAAu		
Australia & New Zealand Banking Group	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-	
Commonwealth Bank of Australia	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-	
National Australia Bank Ltd	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-	
Westpac Banking Corporation	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-	
Canada			Sovereign Rating			AAA	Aaa	AAA		
Bank of Montreal	2 Years		F1+	AA-	2	P-1	Aa3	A-1	A+	
Bank of Nova Scotia	2 Years	10	F1+	AA-	2	P-1	Aa3	A-1	A+	
Canadian Imperial Bank of Commerce	2 Years	10	F1+	AA-	2	P-1	Aa3	A-1	A+	
Royal Bank of Canada	3 Years	10	F1+	AA	2	P-1	Aa3	A-1+	AA-	
Toronto-Dominion Bank	3 Years	10	F1+	AA-	2	P-1	Aa1	A-1+	AA-	
		10								
Finland			Sovereign Rating			AA+	Aa1	AA+		
OP Corporate Bank plc	2 Years	10				P-1	Aa3	A-1+	AA-	
Germany			Sovereign Rating			AAA	Aaa	AAAu		
Landesbank Hessen-Thuringen	13 months	10	F1+	A+		P-1	A1	A-1	A	
Netherlands			Sovereign Rating			AAA	Aaa	AAAu		
Bank Nederlandse Gemeenten	5 Years	10	F1+	AA+	1	P-1	Aaa	A-1+	AAA	
Coöperatieve Rabobank UA	2 Years	10	F1+	AA-		P-1	Aa2	A-1	A+	
ING Bank NV	13 months	10	F1	A+	5	P-1	A1	A-1	A	
Singapore			Sovereign Rating			AAA	Aaa	AAAu		
Development Bank of Singapore Ltd	3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-	
Oversea-Chinese Banking Corp	3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-	
United Overseas Bank Ltd	3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-	
Sweden			Sovereign Rating			AAA	Aaa	AAAu		
Svenska Handelsbanken	3 Years	10	F1+	AA	2	P-1	Aa2	A-1+	AA-	
Nordea Bank NV	3 Years	10	F1+	AA-	2	P-1	Aa3	A-1+	AA-	
Switzerland			Sovereign Rating			AAA	Aaa	AAAu		
Credit Suisse AG	13 months	10	F1+	A	5	P-1	A1	A-1	A	
USA			Sovereign Rating			AAA	Aaa	AA+u		
J P Morgan Chase Bank NA	2 Years	10	F1+	AA-	5	P-1	Aa3	A-1	A+	
Supernational										
Council of Europe Development	5 Years	10	F1+	AA+	-	P-1	Aa1	A-1+	AA+	
European Bank for Reconstruction & Dev	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA	
European Investment Bank	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA	
Inter-American Development Bank	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA	
IBRD (World Bank)	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA	
Nordic Investment Bank	5 Years	10	-	-	-	P-1	Aaa	A-1+	AAA	

Proposed Counterparty List - Unsecured Bank Investments

Summary Guide to Credit Ratings

Rating Details	
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Arlingclose Economic & Interest Rate Forecast

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.40
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.18
Arlingclose Central Case	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.34
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.60	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90	0.65
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.24
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.50	0.40	0.35	0.35	0.35	0.40	0.40	0.40	0.45	0.50	0.55	0.60	0.65	0.45
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.47
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.15	0.95	0.85	0.85	0.85	0.85	0.85	0.90	0.95	1.00	1.05	1.10	1.15	0.96
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.47
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.70	1.50	1.40	1.40	1.40	1.40	1.40	1.45	1.50	1.55	1.60	1.65	1.70	1.75
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.60	1.40	1.30	1.30	1.30	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.60	1.41
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57

ITEM: 12

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 28 SEPTEMBER 2017

REPORT TITLE: AUDIT COMMITTEE – FORWARD WORK PLAN

AUTHOR: TIM RICHENS

Purpose of Report

1. To present the proposed Work Plan for the Audit Committee.

Issues for Consideration

2. To consider the areas proposed in light of the role of the Audit Committee and its areas of delegation.

Report Narrative / Main Content

- 3.1 The Work Plan set out at Appendix 1 takes account of the proposed Terms of Reference of the Audit Committee. These take account of the roles of Audit Committee both in the wider public sector and those of a normal Local Authority.
- 3.2 As this is the first year of WECA and the first meeting of the Audit Committee the work plan is simply indicative at this stage and will remain fluid as the Committee develops and be subject to review at each meeting.

Consultation:

4. The report content was considered by WECA senior Management Team as part of the forward plan process.

Public Sector Equality Duties:

5. No significant implications

Economic Impact Assessment:

6. No direct implications.

Finance Implications:

7. No direct implications.

Legal Implications:

8 No direct implications

Land/Property Implications;

9 No direct implications.

Human Resources Implications:

10 No direct implications

Recommendation:

11 To note the indicative Work Plan set out at Appendix 1.

Report Author: Tim Richens

West of England Combined Authority Contact: Tim Richens – Director of Corporate Services, Tel: 0117 428 6210

Background Papers

None.

ITEM 12 - Appendix 1 - Draft Audit Committee Work Plan 2017/18

Meeting Date	Proposed Agenda Items
28 September 2017	<ul style="list-style-type: none">- Appointment of Chair- Approval of Terms of Reference- Appointment Process for Independent Member- Internal Audit Plan 2017/18- External Audit Update- Treasury Management Strategy 2017/18- Work Plan 2017/18
25th January 2018	<ul style="list-style-type: none">- Treasury Management Strategy 2018/19- Code of Corporate Governance- Corporate Risks Overview- Internal Audit Update- External Audit Update
26th April 2018	<ul style="list-style-type: none">- Annual Governance Review Update- Internal Audit Annual Report 2017/18- Internal Audit Plan 2018/19- External Audit Annual Plan 2017/18
12th July 2018	<ul style="list-style-type: none">- Final Accounts 2017/18- Governance Reports 2017/18- Annual Governance Statement 2017/18- Treasury Management Outturn 2017/18- Annual Report of Committee 2017/18