

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

will be held on

Date: 25 January 2018

Time: 10:00am

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 Claire Hiscott, Bristol City Council
Cllr Geoffrey Gollop, Bristol City Council
Cllr Jerome Thomas, Bristol City Council
Cllr John O'Neill, South Gloucestershire Council
Cllr Roger Avenin, South Gloucestershire Council
Cllr John Ashe, South Gloucestershire Council

Enquiries to:

Democratic Services
West of England Combined Authority Office
3 Rivergate, Temple Quay, Bristol, BS1 6GD
Email: democratic.services@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

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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.

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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. APOLOGIES FOR ABSENCE

To receive apologies for absence from Members.

2. 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.

3. MINUTES

To consider and approve the minutes from 28 September 2017 of the West of England Combined Authority Audit Committee.

4. 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 democratic.services@westofengland-ca.gov.uk. For this meeting, this means that your submission must be received in this office by **12noon on Wednesday, 24 January 2018**.

If you wish to ask a question at the meeting, you are required to submit the question in writing to democratic.services@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, 19 January 2018**.

5. 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.

6. TREASURY MANAGEMENT STRATEGY 2018/19

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

7. EXTERNAL AUDIT PLAN 2016/17 AND 2017/18

To consider the External Audit Plan for 2016/17 and 2017/18.

8. INTERNAL AUDIT PLAN 2017/18

To update the Committee on Internal Audit work in 2017/18.

9. ANNUAL GOVERNANCE REVIEW

To present the outline of the process for the Annual Governance Statement.

10. INDEPENDENT MEMBER APPOINTMENT

To receive a verbal update regarding Independent Member Appointment.

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

Next meeting: 26 April 2018

	West of England Combined Authority
	Audit Committee Meeting Minutes
Date	28 th September 2017
Location	3 Rivergate, Temple Quay, Bristol BS1 6ER

PRESENT	CLlr Mark Weston - BCC
	CLlr Will Sandry - B&NES
	CLlr Brian Simmons - B&NES
	CLlr Jerome Thomas - BCC
	CLlr Harriet Bradley - BCC
	CLlr Geoff Gollop - BCC
	CLlr Don Alexander – BCC
	CLlr Brenda Massey – BCC
	CLlr John O’Neill – S Glos
	CLlr Roger Avenin – S Glos
	CLlr John Ashe – S Glos
IN ATTENDANCE	Tim Richens - WECA
	Lynda Bird – WECA
	Michelle - Grant Thornton
	Barrie Morris - Grant Thornton
	Jeff Wring - Audit West
	Emma-Katherine Anderson - WECA
APOLOGIES	

WELCOME	Action
Tim Richens welcomed members to the first Audit Committee meeting and advised of the buildings Health and Safety instructions in case of fire.	
APPOINTMENT OF CHAIR	
<p>Tim Richens called for Chair nominations</p> <p>Geoff Gollop and Will Sandry were nominated</p> <p>Geoff Gollop gained the majority with two abstentions</p> <p>Geoff Gollop thanked the committee and accepted the chair</p> <p>Geoff Gollop called for the Vice Chair nominations</p> <p>Will Sandry and Jerome Thomas were nominated</p> <p>Will Sandry gained the majority</p> <p>Will Sandry thanked the committee and accepted Vice Chair</p>	
APPROVAL OF TERMS OF REFERENCE	
<p>Tim Richens advised the committee that broader terms to be taken and applied to the Combined Authority Committee, feedback requested.</p> <p>Noted that changes can be made at a later date. This was motioned and accepted.</p>	
APPOINTMENT PROCESS FOR INDEPENDENT MEMBER	

<p>To appoint an independent member to the committee who is neither Local or Combined Authority affiliated.</p> <p>Motion to advertise and interview for the appointment.</p> <p>Agreement reached that position would be voluntary for a term of 5 years.</p> <p>Agreement reached that role/skill specification would be drawn up and passed to the committee for review and suggestions.</p> <p>Will Sandry put forward the possibility of approaching Multi National Accountancy employers with the view of nominating perspective candidates.</p> <p>Jerome Thomas brought forward the need for diversity. Appointments panel consists of Geoff Gollop, Will Sandry and Tim Richens. Brenda Massey put herself forward as a possible fourth member if required in response to the diversity point raised.</p> <p>Geoff Gollop put forward the option of a possible second independent member to share the role if sufficient interest.</p> <p>Unanimous agreement of the process.</p>	GG,WS & TR
INTERNAL AUDIT PLAN 2017/18	
<p>Jeff Wring introduced this item, advising that the present IAP is indicative of the 1st year, there is no audit history as WECA is in its 1st year therefore working with key themes: eg: Good Core Systems, Governance Framework</p> <p>Three various levels of assessments and reasonable assurance model of 80 audit days to start with but to review the amount of audit days at the end of the year.</p> <p>Working with Tim Richens as Interim Director.</p> <p>Brenda Massey raised the point of “Investigation of Fraud and Corruption”(page 7 of IAP) requests to see the Whistle Blowing policy.</p> <p>Tim Richens advised that work is in progress to ensure policies are in place and completed. A Staff Handbook will be produced and a list of policies reviewed at the next WECA meeting.</p> <p>Geoff Gallop suggested that the next briefing for the committee uses the budget as a base point. WECA is still evolving and 80 audit days provides fluidity to consider risks and provide clarity before risks can be identified.</p>	TR
EXTERNAL AUDIT UPDATE	
<p>Barrie Morris advised that the first year audit will show two sets of accounts due to the input of funds at the end of 2016. Focus needs to be on where WECA stands in terms of and how the accounts are structured and supporting documentation. Proposal to liaise with National Colleagues both from an audit and organisation perspective.</p> <p>Proposes to bring in a plan in January 2018 and update on the audit and formal accounts in July 2018.</p> <p>Barrie Morris advised that GT have just produced a national report on combines authorities and confirmed he will forward a link to the document to the committee.</p>	BM
TREASURY MANAGEMENT STRATEGY 2017/18	
<p>Tim Richens led this topic stating that this is a key role of the Audit Committee.</p> <p>The TMS was approved by WECA Committee in March 2018</p> <p>Independent Treasury Advisors Arlingclose advised on the TMS using their prudential model devised for local government.</p> <p>The key element for WECA is investment of surplus cash flow to protect capital and provide an investment return.</p> <p>WECA has not approved any borrowing and there is no intention to borrow at this time.</p> <p>The Combined Authority is receiving various investments funds:</p> <ul style="list-style-type: none"> • Government £30M per year for 30 years, first payment March 2017, second payment April 2017 • Local Growth Funding April 2017 £50mil • Legacy Funding B&NES £25M • Various other funding streams <p>Holding to Invest, keeping WECA investments risk free.</p> <ul style="list-style-type: none"> • High credit quality only • Banks/Government/ Other Local Authorities 	

<p>Strategy sets out where the Authority may invest and how long for. Arlingclose to be brought in to provide specialist training for the Committee.</p> <p>Roger Avenin queried if WECA should be considering the Local Authority Property Fund?</p> <p>Tim Richens confirmed that the Authority is intending to use the CCLA property fund, investing a small portion of its overall holding in the fund (£5M yielding approximately 4.5% over next 2-3 years)</p> <p>The committee discussed the nature and use of the funds held by WECA. Tim Richens explained the background to each of the funding streams and how they are committed over the next few years. A detailed 1 year cash flow together with a medium-term cash flow is produced to support investment decision making.</p> <p>Endorsement of the Treasury Strategy was unanimous</p>	
WORK PLAN 2017/18	
<p>It is agreed that there is enough time to go into the work plan into more depth in the future, look at linking meetings with training sessions to gain a fuller understanding. Jeff Wring and Tim Richens to circulate briefing suggestions to obtain input from the committee and liaise with Geoff Gollop and Will Sandry to agree dates for briefings between meetings.</p> <p>Agreement reached that a briefing/training session will be held prior to next meeting in January 2018 with Treasury Management as a key topic.</p>	
ANY OTHER BUSINESS	
<p>Pension and Liabilities – WECA is Statutory Scheduled Body and part of Avon Pension fund. All liabilities fully funded for transferred staff subject to ongoing discussion with B&NES and BCC the previous employers.</p> <p>Geoff Gollop asks for all thoughts and issues to be brought to the attention of himself and Tim Richens.</p>	

ITEM: 6

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 25 January 2018

REPORT TITLE: TREASURY MANAGEMENT STRATEGY 2018/19

AUTHOR: TIM RICHENS

Purpose of Report

1. To consider the draft Treasury Management Strategy for 2018/19.

Issues for Consideration

2. The WECA is required each year to approve a Treasury Management Strategy in accordance with the CIPFA Treasury Management in Public Services Code of Practice 2011.
 - 2.1. Prior to consideration by the WECA Committee, the Audit Committee is asked to review and comment on the proposed Strategy, making recommendations as appropriate to the WECA Committee.
 - 2.2. The draft Treasury Management Strategy for 2018/19 is attached to this report for consideration and comment as appropriate, by the Audit Committee.

Consultation:

3. The Audit Committee has a key role in considering the draft Treasury Management Strategy prior to consideration and approval by the WECA Committee.

Public Sector Equality Duties:

4. As set out in the attached report.

Economic Impact Assessment:

5. As set out in the attached report.

Finance Implications:

6. As set out in the attached report

Legal Implications:

- 7 The report fulfils the WECA's legal obligations under the Local Government Act 2003 to have regard to both the CIPFA Code and government guidance.

Human Resources Implications:

- 8 As set out in the attached report

Recommendation:

- 9 To recommend the Treasury Strategy Statement to the WECA Committee for approval.

Report Author:

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

Background Papers

Any person wishing to inspect the Background Papers, used in the preparation of this Report, should seek the assistance from Democratic Services by telephoning 0117 3701959 or writing to West of England Combined Authority Office, 3 Rivergate, Tempe Quay, Bristol, BS1 6ER. Email: democratic.services@westofengland-ca.gov.uk

WEST OF ENGLAND COMBINED WECA (“WECA”)

DATE: 2nd February 2018

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2017/18

ATTACHMENTS TO THIS REPORT

Appendix 1 - Treasury Management Strategy 2018/19

Appendix 2 - Investment Strategy 2018/19

Appendix 3 - Authorised Lending List

Appendix 4 - Economic and Interest Rate Forecast

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.

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 WECA investments in March 2010 that requires the WECA to approve an investment strategy before the start of each financial year.
3. CIPFA issued an updated Treasury Management in Public Services: Code of Practice in late December 2017 and the code will be effective for the 2018/19 Financial Year. In accordance with Arlingclose advice we have continued to seek approval of our Treasury Management Strategy (TMS) under the requirements of the 2011 Codes, not least because the new code does not recommend any changes to the format or content of the TMS. CIPFA is currently planning to publish updated guidance notes on the changes to the code later in 2018 and if any changes to this strategy are required they will be reported in future treasury management reports

2018/19 Treasury Management & Investment Strategy

4. The Local Government Act 2003 requires the WECA 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.
 - 4.1. The Act therefore requires the WECA to set out its treasury strategy for borrowing and to prepare an Investment Strategy; this sets out the Authorities policies for managing its investments and for giving priority to the security and liquidity of those investments.
 - 4.2. The suggested strategy for 2018/19 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.

4.3. 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.

4.4. 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 WECA 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: -

- charges caused by the financing of capital expenditure, and
- any increases in running costs from new capital projects

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

4.5. 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.

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

4.7. The indicators provide for no borrowing to be undertaken by the WECA during 2018/19 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 2nd February 2018 will reflect this position accordingly.

4.8. Appendix 1 also sets out that the WECA will have no debt at 31st March 2018.

4.9. The 2018/19 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.

4.10. 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 2017 are included in the listing in Appendix 3.

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

4.12. The Council has met the conditions to opt up to MiFID II professional status and intends for this to continue in 2018/19 in order to continue to have access to products including money

market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors

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 – 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 no 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. **Note that the relevant Budget proposals for 2018/19 will be based upon the assumptions and indicators set out in these strategies.**

Author

Tim Richens, Director of Investment & Corporate Services and Section 151 Officer
Tel: 01225 477468.

WECA Contact

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Tel: 0117 3701959

Background Papers

N/A

TREASURY MANAGEMENT STRATEGY – 2018/2019

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.

CIPFA issued an updated Treasury Management in Public Services: Code of Practice in late December 2017 and the code will be effective for the 2018/19 Financial Year.

The Arlingclose advice received has been that Local authorities are legally obliged to "have regard" to the Treasury Management Code and the Prudential Code "as amended or reissued from time to time" by relevant Capital Finance Regulations. The Council is awaiting publication, expected later in 2018, by CIPFA of the associated new Treasury Management Code Guidance Notes which will include the Treasury Management indicators, and new DCLG Investment Guidance, so it can fully consider any changes that may be required to the treasury management strategy.

The advice received is therefore to continue to obtain full WECA approval for the 2018/19 Treasury Management Strategy under the requirements of the 2011 Codes, not least because the new code does not recommend any changes to the format or content of the TMS. If any updates are required once further guidance notes are published these will be reported in future treasury management reports.

In accordance with the CLG Guidance, the WECA Committee will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Other than code changes, other circumstances would include, for example, a large unexpected change

Treasury Borrowing Limits for 2018/19 to 2020/21

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 2018/19 – 2020/21

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.

	2018/19
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:

	2018/19	2019/20	2020/21
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:

	2018/19	2019/20	2020/21
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.

	2018/19	2019/20	2020/21
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 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook: High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic 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. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

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 remain very low.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-

emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

Arlingclose Interest Rate Forecasts

Arlingclose central interest rate forecast – November 2017

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield*
Q1 2018	0.50	0.50	0.70	1.85
Q2 2018	0.50	0.50	0.70	1.85
Q3 2018	0.50	0.50	0.70	1.85
Q4 2018	0.50	0.50	0.70	1.85
H1 2019	0.50	0.50	0.80	1.87
H2 2019	0.50	0.50	0.80	1.92
H1 2020	0.50	0.50	0.80	1.97
H2 2020	0.50	0.50	0.80	2.05

*

The Authority can currently borrow from the PWLB at 0.60% above gilt yields

The WECA Budget will assume investment interest rates to remain constant at average rate for 2018/19, reflecting the relatively short-term average 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 WECA currently holds no borrowing and this is not expected to change during 2018/19.

Borrowing Strategy

As at 31st March 2018, the WECA will hold no long-term loans, no borrowing is anticipated during 2018/19. Therefore a debt-free strategy will be maintained until such a time as the WECA has been able to determine a more detailed capital strategy together with 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 WECA 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 WECA'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 WECA'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, WECA Officers will operate in a more restrictive manner than the policy allows, as has been the case during recent years.

As a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients but can "opt up" to professional client status, providing that they meet certain criteria which includes having an investment balance of at least £10 million and the persons authorised to make investment decisions on behalf of the WECA having at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies must assess that these persons have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The WECA has met the conditions to opt up to MiFID professional status and intends for this to continue in 2018/19 in order to continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors

West of England Revolving Investment Fund (RIF)

The WECA acts as the Accountable Body for the West of England Revolving Investment Fund, holding Government grants until they are ready to be distributed to Local Authorities for infrastructure works over the coming years.

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

Local Growth Fund (LGF)

Similarly WECA also acts as Accountable Body for Local Growth Fund (LGF).

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

Approved Investment Counterparties

The WECA 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 WECA'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 WECA 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 WECA 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 WECA's treasury management adviser.

In addition, the WECA may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the WECA'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 WECA's current accounts are held with National Westminster Bank plc (NatWest), which is close to the bottom of the above credit rating criteria. The WECA 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 WECA'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 WECA 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 WECA's investment objectives will be monitored regularly.

The WECA may consider further investment in the CCLA Property Fund during 2018/19 with a view to providing further diversification and the potential for earning a higher investment yield on the core investment balance the WECA must hold to maintain the "Professional" investor status required under MIFID II. Any future investment is already covered under the existing Investment strategy for pooled funds and any final investment decision is delegated to the S151 Officer.

Risk Assessments & Credit Ratings

The WECA (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 WECA's credit rating criteria are set to ensure that it is unlikely that the WECA will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the WECA'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 WECA 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 WECA 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 WECA'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 WECA, parish WECA or community WECA, or
 - a body or investment scheme of “high credit quality”.

The WECA 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 WECA 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 WECA 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 WECA's medium term financial plan, levels of reserves and cash flow forecast.

Planned investment strategy for 2018/19

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 WECA 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.

Review Reports

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

Other Matters

The CLG Investment Guidance also requires the WECA 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 WECA 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

2018/19									
CRITERIA									
	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	13 months	10	F1	A	5	P-1	A1	A-1	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	Aa3	A-1+	AA-
Lloyds Banking Group									
Lloyds Bank plc	13 months	10	F1	A+	5	P-1	Aa3	A-1	A
Bank of Scotland plc	13 months	10	F1	A+	5	P-1	Aa3	A-1	A
Royal Bank of Scotland Group									
National Westminster Bank plc	3 Months	5	F2	BBB+	5	-	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	10	F1	A	2	P-1	Aa3	A-1	A
Standard Chartered Bank	2 Years	10	F1	A+	5	P-1	A1	A-1	A
UK Building Societies									
Nationwide	13 months	10	F1	A+	5	P-1	Aa3	A-1	A
Yorkshire	6 months	10	F1	A-	5	P-2	A3	NR	NR
Coventry	13 months	10	F1	A	5	P-1	A2	-	-
Leeds	6 months	10	F1	A-	5	P-2	A3	-	-
Foreign Banks									
Australia		Sovereign Rating		AAA		Aaa		AAAu	
Australia & New Zealand Banking Group	3 Years	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Commonwealth Bank of Australia	3 Years	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
National Australia Bank Group									
National Australia Bank Ltd	3 Years	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Westpac Banking Corporation	3 Years	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Canada		Sovereign Rating		AAA		Aaa		AAA	
Bank of Montreal	2 Years	10	F1+	AA-	2	P-1	A1	A-1	A+
Bank of Nova Scotia	2 Years	10	F1+	AA-	2	P-1	A1	A-1	A+
Canadian Imperial Bank of Commerce	2 Years	10	F1+	AA-	2	P-1	A1	A-1	A+
Royal Bank of Canada	3 Years	10	F1+	AA	2	P-1	A1	A-1+	AA-
Toronto-Dominion Bank	3 Years	10	F1+	AA-	2	P-1	Aa2	A-1+	AA-
Finland		Sovereign Rating		AA+		Aa1		AA+	
OP Corporate Bank	2 Years	10	F1	A+	5	P-1	Aa3	A-1+	AA-
Germany		Sovereign Rating		AAA		Aaa		AAAu	
Landesbank Hessen-Thuringen	13 months	10	F1+	A+	WD	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 Centrale Raiffe	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-	5	P-1	Aa3	A-1+	AA-
Nordea Bank NV	3 Years	10	F1+	AA	5	P-1	Aa2	A-1+	AA-
Switzerland		Sovereign Rating		AAA		Aaa		AAAu	
Credit Suisse AG	13 months	10	F1	A	5	P-1	A1	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)P-1	Aaa	A-1+	AAA
IBRD (World Bank)	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Kreditanstalt Fuer Wiefrauf	5 Years	10	F1+	AAA	1	P-1		A-1+	AAA
Nordic Investment Bank	5 Years	10	-	-	-	P-1	Aaa	A-1+	AAA

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
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:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.22
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.20
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.27
Arlingclose Central Case	0.70	0.70	0.70	0.70	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.77
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	-0.26
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	0.89
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.36
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.85	1.85	1.85	1.85	1.85	1.90	1.90	1.95	1.95	2.00	2.05	2.05	2.05	1.93
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.38
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.70	1.70	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.95	1.95	1.82
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.39

ITEM: 7

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 25 January 2018

REPORT TITLE: EXTERNAL AUDIT PLAN 2016/17 AND 2017/18

AUTHOR: TIM RICHENS – DIRECTOR OF INVESTMENT AND CORPORATE SERVICES (S151 OFFICER)

Purpose of Report

1. To consider the External Audit Plan for 2016/17 and 2017/18 attached to this cover report.

Issues for Consideration

2. The External Auditor has provided the External Audit Plan for 2016/17 and 2017/18 for consideration by the Committee.
 - 2.1. The External Auditor will provide a full briefing on the plan at the meeting.

Consultation:

3. The plan has been produced in consultation with the WECA S151 Officer and the appointed internal audit provider (Audit West).

Public Sector Equality Duties:

4. There are no direct implications arising from this report.

Economic Impact Assessment:

5. There are no direct implications arising from this report.

Finance Implications:

6. The External Audit Plan supports the statutory audit requirements for the Annual Accounts and the fee for this work is agreed by Public Sector Auditor Appointments Ltd.

Legal Implications:

7. The report is in accordance with the Accounts and Audit (England) Regulations 2011.

Human Resources Implications:

8 There are no direct implications arising from this report.

Recommendation:

9 To note the External Audit Plan for 2016/17 and 2017/18.

Report Author:

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

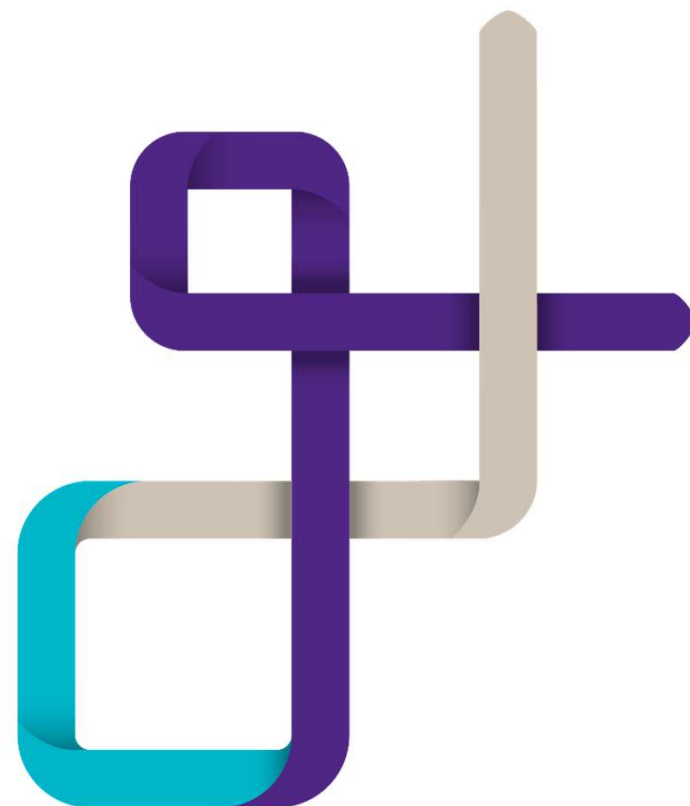
Background Papers

None.

External Audit Plan

Year ending 31 March 2017 and 31 March 2018

West of England Combined Authority
17 January 2018



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Combined Authority or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West of England Combined Authority ('the Combined Authority') for those charged with governance. Due to the limited transactions that took place in 2016/17, this plan covers both the 2016/17 and 2017/18 financial year.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of West of England Combined Authority. We draw your attention to both of these documents on the [PSAA website](#).

Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of controls

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality for 2017/18 to be £382k, which equates to 1% of your forecast gross expenditure for the year. This reflects that the current year is the first full year of operation for the Authority which produces enhanced audit risks as new processes and arrangements become embedded. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £19k.

We have determined planning materiality for 2016/7 to be £300k, which equates to 1% of revenue received for this short period. Clearly trivial has been set at £15k.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial planning and development of Medium Term Financial Plan to support the Combined Authority's strategic objectives.
- Measuring and monitoring of the performance and progress of the Combined Authority in achieving its priorities and objectives.

Audit logistics

Our interim visit will take place in March 2018 and our final visit will take place in June to July 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £24,200 for the Combined Authority for 2017/18 and no less than £3,000 for the 2016/17 audit of the financial statements. The 2016/17 audit which will be conducted alongside the 2017/18 audit as agreed with management.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Combined Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Combined Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Combined Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Combined Authority's business and is risk based.

Deep business understanding

Financial reporting requirements

The Combined Authority is covered by the same statutory and regulatory requirements as principal local government organisations, including the need to produce Annual Statutory Accounts.

The 2017/18 financial year represents the first financial year of actual delivery of Combined Authority services and functions and it will be key to ensure the accounting policies and procedures are aligned to the statutory roles and functions of the authority

The first transaction of the Combined Authority took place in March 2017. Whilst this was limited to receipt of grant and the placing of treasury investments, DCLG have confirmed that the Combined Authority is required to produce statutory accounts for 2016/17.

We agreed with PSAA and the Combined Authority that these accounts will be produced alongside those for 2017/18.

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments

Key challenges

Strategy

The Combined Authority is developing a strategy that will allow the Combined Authority to present a joined-up 'voice' to government across its constituent councils and promote the region nationally and internationally.

A strategy discussion paper has been developed which sets out high level plans for delivering economic growth for all, under three pillars:

- Businesses that succeed
- World class skills for employment
- Infrastructure fit for the future.

Feedback has been sought and will be reflected in a revised regional strategy that will be published in 2018.

The Strategy will form the basis of the business plan for the Combined Authority and will set out key milestones against which it will be measured.

2018/19 Budget and MTFP

The Combined Authority's 2018/19 budget is due to be presented in February 2018. The MTFP is also currently being developed by officers.

We will review the budget and MTFP as part of our year end going concern review and as part of our work in reaching our Value for Money Conclusion.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will review your strategy and consider how it links to operational and financial plans as part of our work in reaching our Value for Money conclusion.
- We will consider your arrangements for preparing annual statutory accounts including the preparation of accounting policies and procedures.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (2016/17 and 2017/18)	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Combined Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited Therefore we do not consider this to be a significant risk for West of England Combined Authority.
Management over-ride of controls (2016/17 and 2017/18)	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Combined Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	We will: <ul style="list-style-type: none">• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness• evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration (2017/18 only)	<p>Payroll expenditure represents a significant percentage 33% of the Combined Authority's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Combined Authority's accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of the Combined Authority's system for accounting for payroll expenditure and evaluate the design of the associated controls; • obtain year-end payroll reconciliation and ensure amount in accounts can be reconciled to ledger and through to payroll reports investigating any significant adjusting items; and • agree payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimates for reasonableness.
Operating expenses (2017/18 only)	<p>Non-pay expenses on other goods and services also represents a significant percentage 51% of the Combined Authority's operating expenses.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Combined Authority's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Combined Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • Document the accruals process and the controls management have put in place. Challenge any key underlying assumptions, the appropriateness of the source of data used and the basis for calculations; • Obtain a listing from the cash book or equivalent of non pay payments made in April, take a sample and ensure that they have been charged to the appropriate year; and • obtain and review the year-end Accounts Payable reconciliation and investigate any significant differences.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Combined Authority.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Combined Authority, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Combined Authority for the 2017/18 financial year. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £382k, which equates to 1% of your forecast gross expenditure for the year.

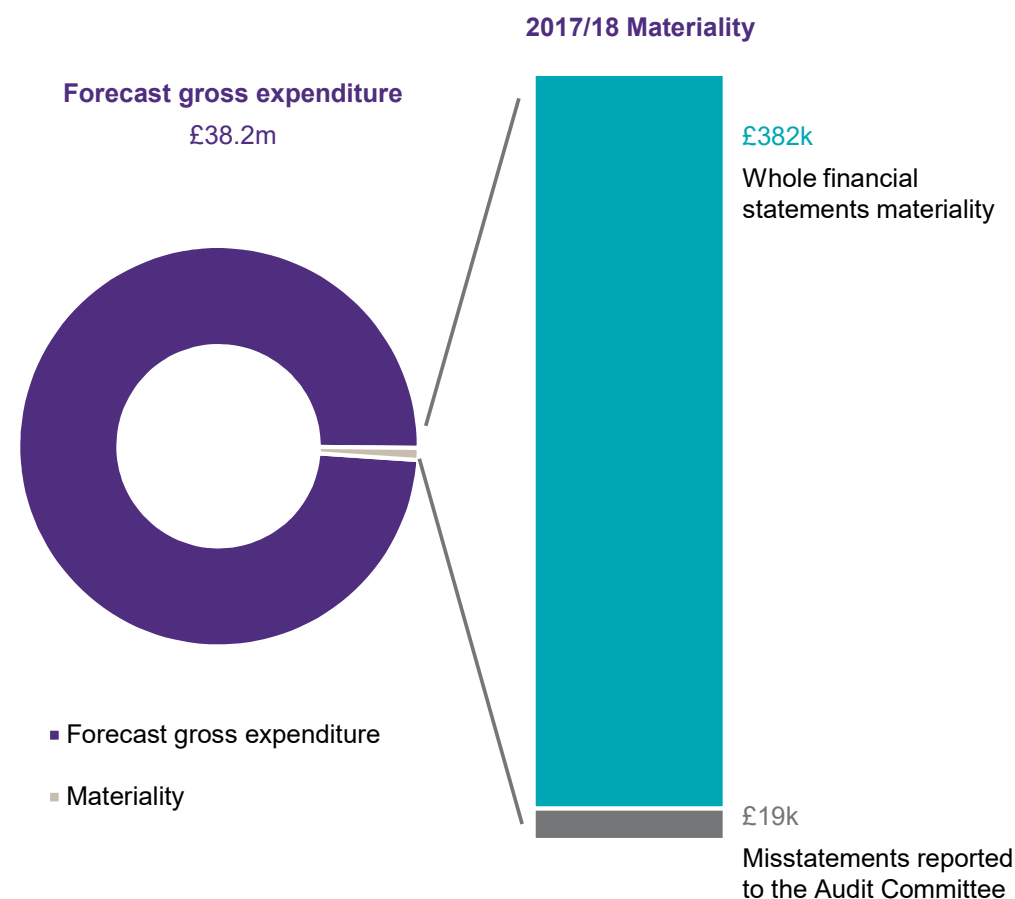
We have determined planning materiality for 2016/17 to be £300k, which equates to 1% of the £30,000k investment fund received and subsequently reinvested in 2016/17, this being the only transactions within the 2016/17 financial year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Combined Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £19k within the 2017/18 financial statements and £15k within the 2016/17 financial statements.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

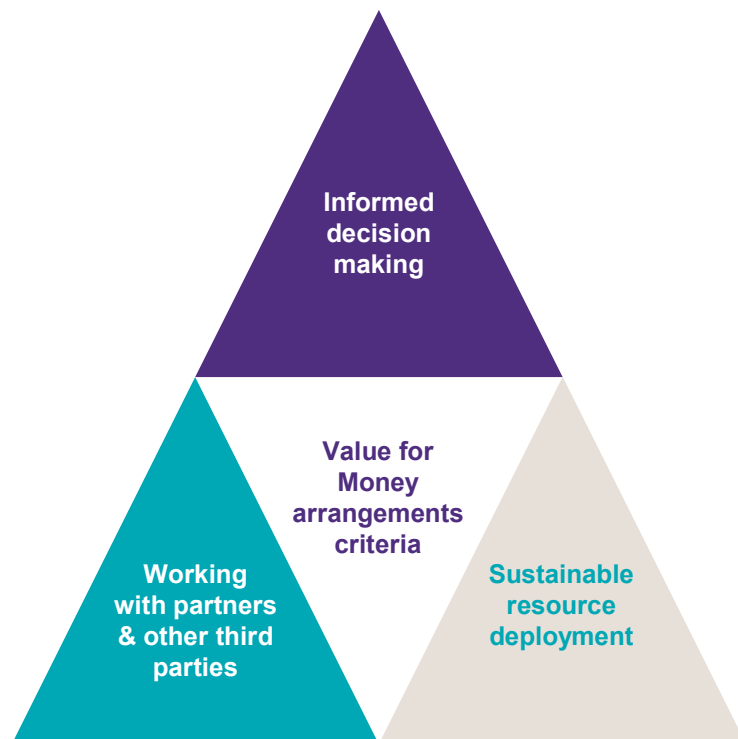
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Combined Authority has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Combined Authority to deliver value for money.



Medium Term Financial Plan (MTFP)

A MTFP for the period 2018/19 – 2020/21 is currently being developed by officers. There is a risk that it may not be based on robust assumptions and will therefore not support the delivery of strategic priorities or may not be sufficiently clear to be able to inform decision makers or facilitate effective monitoring.

We will review the MTFP to assess the clarity of the information provided and the factors used to inform the assumptions that underpin the strategy.



Measuring and Monitoring Performance

The Combined Authority are developing a strategy to ensure the future of the West of England is 'more productive and better connected. This will include initiatives and measures to help grow the economy in a sustainable way, tackling barriers to growth'.

The strategy will incorporate key metrics and targets against which its progress will be delivered by DCLG and wider stakeholders. There is a risk that the Combined Authority may set measures that are hard to substantiate through robust evidence or that inappropriate measures and targets are developed. There is a further risk that a robust process for monitoring actual delivery against targets is not developed.

We will review progress made in developing plans and performance metrics to measure and monitor the performance of the Combined Authority.

Audit logistics, team & audit fees



Barrie Morris, Engagement Lead

Barrie's leads our relationship with you and is a key contact for the Chief Executive, Director of Investment and Corporate Services and Audit Committee. Barrie takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Combined Authority.



Michelle Burge, Audit Manager

Michelle's role involves overseeing the day to day planning and execution of the audit, ensuring the audit requirements are fully complied with and producing reports for the Audit Committee. She will respond to ad-hoc queries whenever raised and meet regularly with the Director of Investment and Corporate Services and members of the finance team.



Rob Patterson, Audit Incharge

Rob's role is to co-ordinate the on-site delivery of audit tasks through his own work and that of junior team members. He will liaise with the finance team throughout the audit visits and will keep them up to date on progress and any issues arising throughout the year.

Audit fees

The planned audit fees are no less than £24,200 for the 2017/18 financial statements audit and £3,000 for the 2016/17 financial statement audit.

In setting your fee, we have assumed that the scope of the audit, and the Combined Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Earlier Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Earlier close

An earlier timescale for producing the financial statements

The statutory date for publication of audited local government accounts has been brought forward to 31 July this year. This is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- undertaking as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 10). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Combined Authority.

Non-audit services

No non-audit services were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Appendices

A. Revised ISAs

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Combined Authority's ability to continue as a going concern.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

ITEM: 8

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 25 JANUARY 2018

REPORT TITLE: INTERNAL AUDIT UPDATE

AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)

Purpose of Report

1. To update the Committee on Internal Audit work in 2017/18.

Issues for Consideration

2. To note the areas under review and the initial assessment of the eight themes within the reasonable assurance model. These are 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

- 4.1 The Committee was presented with an outline of the proposed approach for Internal Audit work in the first formal year of WECA's operation at its last meeting. This approach involved a mixture of formal audit work along with an assessment of the internal control framework to inform the plan for future years.
- 4.2 The table in section 4.6 summarises work underway with ten areas close to completion and six other areas either in progress or being scoped and about to commence shortly.
- 4.3 As this is the first year of the organisation and there are limited transactions to examine it is important that there is flexibility in our approach so work will involve a mixture of risk based audit reviews, key controls testing and compliance reviews.
- 4.4 At the next Committee in April fuller details will be available on the outcome of this work along with our plan for 2018/19. Fundamental to this and to inform future audit plans is the work undertaken on the eight themes in our 'Reasonable Assurance Model'.
- 4.5 An outline of the model is detailed at Appendix 1 and a short presentation will take place during the meeting to update the Committee on our initial assessment of the eight themes.

4.6 **Summary of Audit Work & Status – 2017/18**

Area Under Review	Status
Reasonable Assurance Model – Corporate Governance	WIP - Initial Assessment Complete
Reasonable Assurance Model – Financial Management	WIP – Initial Assessment Complete
Reasonable Assurance Model – Risk Management	WIP – Initial Assessment Complete
Reasonable Assurance Model – Performance Management	WIP – Initial Assessment Complete
Reasonable Assurance Model – Procurement & Commissioning	WIP – Initial Assessment Complete
Reasonable Assurance Model – Programme & Project Management	WIP – Initial Assessment Complete
Reasonable Assurance Model – Information Management	WIP – Initial Assessment Complete
Reasonable Assurance Model – Asset Management	WIP – Initial Assessment Complete
Creditors – Key Controls	WIP – Scoping
Debtors – Key Controls	WIP – Scoping
Payroll – Key Controls	WIP - Scoping
Treasury Management	WIP – Report Stage
Mayoral Election Costs	WIP – Scoping
Invest in Bath & Bristol	WIP – Report Stage
WOE/LEP Grant Funding (Local Growth Fund) – Key Controls	WIP - Scoping
Annual Governance Review	WIP - Scoping

- 4.7 The Plan will continue to remain fluid to the end of the year to enable the service to respond to WECA's changing risk environment and the Committee will receive a full update on the work undertaken at its next meeting.

Consultation:

5. Report and work undertaken is consulted with the Interim 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 within existing budgets

Legal Implications:

9 No direct implications

Land/Property Implications;

10 No direct implications.

Human Resources Implications:

11 No direct implications

Recommendation:

12 To note the report.

Report Author:

West of England Combined Authority Contact: Tim Richens – Director of Corporate Services

Background Papers

Any person wishing to inspect the Background Papers, used in the preparation of this Report, should seek the assistance from Democratic Services by telephoning 0117 3701959 or writing to West of England Combined Authority Office, 3 Rivergate, Tempe Quay, Bristol, BS1 6ER. Email: democratic.services@westofengland-ca.gov.uk

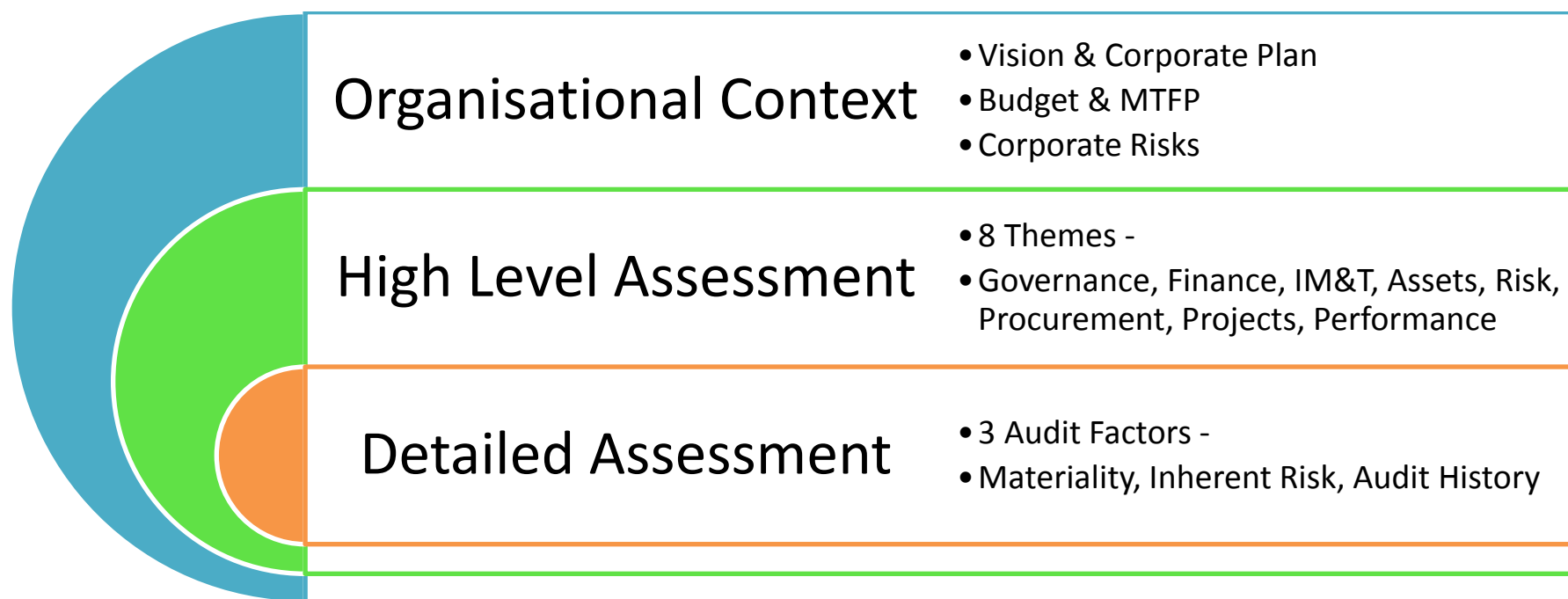
Appendix 1 – Internal Audit Plan 2017/18

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.

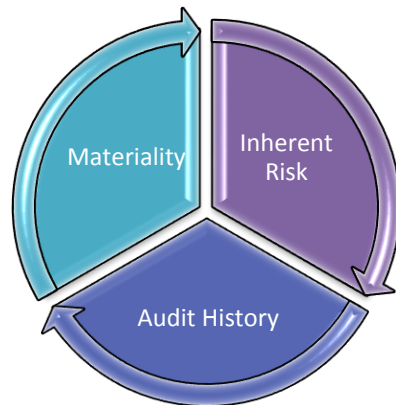
This involves considering current context of the Authority, what a 'healthy organisation' requires to operate effectively and then assessing independently against this in a staged process as follows –



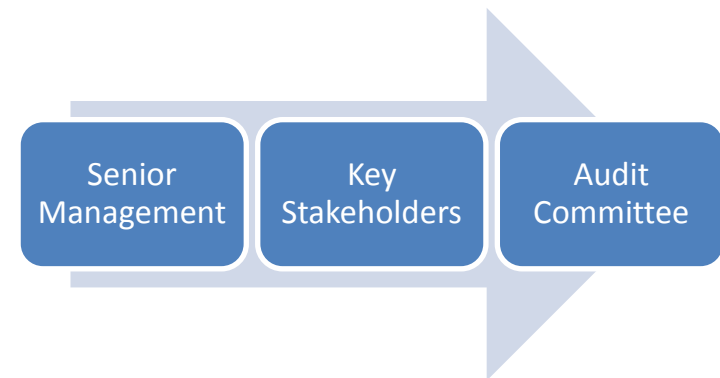
HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE



DETAILED CRITERIA – AUDIT PLAN LISTING



CONSULTATION & APPROVAL



ITEM: 9

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 25 January 2018

REPORT TITLE: ANNUAL GOVERNANCE STATEMENT (REVIEW PROCESS)

AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)

Purpose of Report

1. To present the outline of the process for the Annual Governance Statement.

Issues for Consideration

2. The Audit Committee has specific terms of reference which include the consideration of an Annual Governance Statement and the framework which supports it which includes the local code of corporate governance.

Report Narrative / Main Content

- 3.1 WECA has adopted a Code of Corporate Governance within its Constitution and is statutorily required to produce an Annual Governance Statement. This report gives an outline of the process to produce the statement which is based on the Accounts & Audit Regulations and the guidance within the CIPFA / SOLACE 'Delivering Good Governance in Local Government' publication.
- 3.2 Appendix 1 details the current Code of Corporate Governance within the constitution of WECA which sets out the requirements to produce an Annual Governance Statement. As the guidance produced by CIPFA/SOLACE has been updated in the last 18 months the Code is currently being independently reviewed by Internal Audit to ensure it takes account of the latest guidance.
- 3.3 An outline of the methodology to produce the Statement – which we title the Annual Governance Review – is detailed at Appendix 2 and is carried out by Internal Audit.
- 3.4 The review of governance covers all significant corporate systems, processes and controls, spanning the whole range of WECA's activities, including in particular those designed to ensure:
 - WECA policies are implemented;
 - Quality services are delivered efficiently and effectively;

- WECA's values and ethical standards are met;
- Compliance with laws and regulations;
- Financial statements and published performance information is accurate and reliable;
- Human, financial, environmental and other resources are managed efficiently and effectively.

3.5 The Annual Governance Statement is a 'management' statement and as such is signed by the Chief Executive and Mayor whilst the Audit Committee oversees the process and delivery of any actions where significant issues are identified.

3.6 In deciding which issues are 'significant' Local Authorities are required to exercise sound judgement and guidance is limited to that provided by CIPFA as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective;
- The issue has resulted in a need to seek significant additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the business;
- The issue has led to a material impact on the accounts;
- The audit committee, or equivalent, has advised that it should be considered significant for this purpose;
- The 'Head of Internal Audit' has reported on it as significant, for this purpose, in the annual opinion on the internal control environment;
- The issue, or its impact, has attracted significant public interest and has seriously damaged the reputation of the organisation;
- The issue has resulted in formal action being taken by the Chief Financial Officer and / or the Monitoring Officer.

3.7 Work on the governance review has started and the Committee will receive a further update at its next meeting in April and a final statement for approval with the Annual Accounts in July.

Consultation:

4. Report and work undertaken has been consulted with the Interim Director of Corporate Services.

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 note the report.

Report Author:

West of England Combined Authority Contact: Tim Richens – Director of Corporate Services

Background Papers

Any person wishing to inspect the Background Papers, used in the preparation of this Report, should seek the assistance from Democratic Services by telephoning 0117 3701959 or writing to West of England Combined Authority Office, 3 Rivergate, Tempe Quay, Bristol, BS1 6ER. Email: democratic.services@westofengland-ca.gov.uk

Appendix 1

WECA Code of Corporate Governance

What is Corporate Governance?

1.1 The West of England Combined Authority has a key role in governing and leading our community. Effective local government relies on public confidence in elected members of West of England Combined Authority and officials. Effective systems of corporate governance underpin the credibility and confidence in public services.

1.2 Corporate Governance is a phrase used to describe how organisations direct and control what they do. For local authorities this includes how a West of England Combined Authority relates to the communities that it serves. Good Corporate Governance requires local authorities to carry out their functions in a way that demonstrates accountability, transparency, effectiveness, integrity and exclusivity. It also supports that the business of the West of England Combined Authority 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.

1.3 West of England Combined Authority is committed to being at the forefront of those local authorities that are able to demonstrate that they have the necessary Corporate Governance to excel in the public sector.

1.4 This Code is a public statement that sets out the way in which the West of England Combined Authority will meet that commitment.

2. Why do we need a Local Code?

2.1 Corporate Governance is important because it is crucial to:

- a) Providing high-quality public services. Nationally governance weaknesses have led to service failures and, on occasion, to tragedies. High performing organisations, on the other hand, have effective governance arrangements
- b) Raising public trust. The public's trust is increased when the quality of services that they and their families experience is high, and when organisations are perceived to be open and honest in communicating their performance, and in learning from their mistakes.

2.2 The West of England Combined Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'.

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The Code is based upon the following six Principles:

- a) Focusing on the West of England Combined Authority's purpose and on outcomes for the community and creating and implementing a vision for the local area
- b) Members and officers working together to achieve a common purpose with clearly defined functions and roles
- c) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- e) Developing the capacity and capability of members and officers to be effective
- f) Engaging with local people and other stakeholders to ensure robust public accountability.

2.3 Our Local Code of Corporate Governance sets out the means by which the West of England Combined Authority will meet and demonstrate our commitment to good corporate governance in relation to these six principles.

3. The Principles of Corporate Governance

Focusing on the West of England Combined Authority's purpose and on outcomes for the community and creating and implementing a vision for the local area

3.1 We are committed to an ambitious strategy of achieving the best for our residents and their communities. We demonstrate this by publishing:

- a) Our Community Strategy
- b) Our West of England Combined Authority Strategy
- c) An Annual Performance Report
- d) Our Improvement Programme

3.2 We will regularly review the West of England Combined Authority's vision for the local community and its implications for the West of England Combined Authority's governance arrangements.

3.3 Through our Partnership Framework, we will ensure that partnerships are underpinned by a common vision.

3.4 The West of England Combined Authority will aim to deliver high quality services that make the best use of resources and are value for money. The West of England Combined Authority will do this by:

- a) Delivering services to meet the needs of the local community, and put in place processes to ensure that they operate effectively in practice.

Appendix 1

- b) Determining local needs and targeting resources accordingly as per the West of England Combined Authority Strategy.
- c) Developing effective relationships and partnerships with other public sector agencies and the private and voluntary sectors
- d) Responding positively to the findings and recommendations of external auditors and statutory inspectors and putting in place arrangements for the implementation of agreed actions.
- e) Developing a value for money strategy and an internal self-assessment to benchmark our services and test value for money.

Members and officers working together to achieve a common purpose with clearly defined functions and roles

3.5 The West of England Combined Authority will ensure that the necessary roles and responsibilities for the Governance of the West of England Combined Authority are identified and allocated so that it is clear who is accountable for decisions that are made. The West of England Combined Authority will do this by:

- a) Operating a committee system of governance, where West of England Combined Authority will:
 - i (i) Annually appoint Committees which would have powers delegated to them to discharge specific West of England Combined Authority functions, including Regulatory responsibilities
 - ii (ii) Make safeguarding provision through a pre-set process to refer a decision up to West of England Combined Authority in certain circumstances
 - iii (iii) Agree a scheme of delegated decision making responsibilities to Directors
- b) Undertaking an annual review of the operation of the West of England Combined Authority's constitution
- c) Ensuring Partnership arrangements have clear governance accountabilities
- d) Having in place effective arrangements for the statutory scrutiny of partners/services

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

3.6 The West of England Combined Authority will foster a culture of behaviour based on shared values, ethical principles and good conduct. The West of England Combined Authority will do this by establishing and keeping under review:

Appendix 1

- a) The West of England Combined Authority's Guiding Principles
- b) A Members' Code of Conduct
- c) An Employees' Code of Conduct
- d) A Protocol governing member/officer relations
- e) A Members' Planning Code of Good Practice
- f) A Strategy for combating Fraud and Corruption
- g) A Whistle Blowing Policy

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

3.7 The West of England Combined Authority will ensure that the decision-making process includes a rigorous risk assessment including:

- a) Financial, legal and HR implications
- b) Sustainability and Environmental implications
- c) Equalities and Privacy impact assessment
- d) Risks, mitigations and opportunities

3.8 The West of England Combined Authority will be rigorous and transparent about how decisions are taken and recorded. The West of England Combined Authority will:

- a) Ensure Committees make decisions in an open and transparent way
- b) unless statutory rules say otherwise
- c) Record all decisions that are made by committees and officers.
- d) Have rules and procedures which govern how decisions are made.
- e) Maintain an effective audit and accounts committee

3.9 The West of England Combined Authority will operate a Risk and Opportunity Management Strategy that enables the West of England Combined Authority to manage and control risks in order to maximise the quality of its service provision and uphold its reputation, making a powerful contribution to continuous service improvement and the achievement of best value.

3.10 The West of England Combined Authority will ensure that the risk management system:

- a) Formally identifies and manages risks;
- b) Involves elected members in the risk management process;
- c) Includes a risk assessment of every decision
- d) Maps risks to financial and other key internal controls;
- e) Incorporates business continuity planning; and
- f) Reviews and, if necessary, updates its risk management processes at least annually.

Appendix 1

Developing the capacity and capability of members and officers to be effective

3.11 The West of England Combined Authority will ensure that those charged with the governance of the West of England Combined Authority have the skills, knowledge and experience they need to perform well. The West of England Combined Authority will do this by:

- a) Implementing a Member Development Strategy
- b) Developing leadership skills and capacity across the West of England Combined Authority
- c) Developing our approach to workforce planning
- d) Encouraging quality mark accreditation
- e) Maintaining and developing our Personal Development and Performance
- f) review systems
- g) Cascading regular information to members and staff

Engaging with local people and other stakeholders to ensure robust public accountability.

3.12 The West of England Combined Authority is committed to increasing public involvement in decision making and devolving power to individuals and local organisations. We will seek and respond to the views of stakeholders and the community. The West of England Combined Authority will do this by:

- a) Forming and maintaining relationships with the leaders of other organisations
- b) Publishing a Forward Schedule of Key Decisions
- c) Having a policy on consultation and providing access to a range of consultation methods
- d) Using a range of methods to ensure residents have the opportunity to give their views on West of England Combined Authority services and Performance
- e) Encouraging and supporting the public to get involved in local review and decision making, in line with its Localism Framework
- f) Maintain and review an effective complaints procedure

4. Monitoring and Review

4.1 Good Corporate Governance requires the active participation of members and employees across the authority. In order to ensure that our Code is effectively put into practice we will implement the following monitoring and review procedures.

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4.2 The Corporate Governance Working Group is an officer working group that has responsibility for:

- a) Development, implementation and continuous improvement of the West of England Combined Authority's corporate governance culture and supporting process framework
- b) Preparation, adoption and maintenance of an up-to-date local code of corporate governance, including arrangements for ensuring its implementation and ongoing application
- c) Development, implementation and continuous improvement of the West of England Combined Authority's risk management arrangements
- d) Co-ordination and review of the West of England Combined Authority's Annual Governance Statement
- e) Promotion and celebration of best practice in corporate governance throughout the West of England Combined Authority

4.3 The West of England Combined Authority Audit Committee is responsible for monitoring and reviewing the West of England Combined Authority's Corporate Governance arrangements.

4.4 The Audit Committee is responsible for the West of England Combined Authority's arrangements relating to:

- i i. reviewing and scrutinising the authority's financial affairs;
- ii ii. reviewing and assessing the authority's risk management, internal control and corporate governance arrangements;
- iii iii. reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and
- iv iv. making reports and recommendations to the combined authority in relation to the reviews they have conducted.

4.5 The West of England Combined Authority has responsibility for providing an overview of the implementation of member and officer codes and protocols relating to probity and conduct.

4.6 Through this Committee the West of England Combined Authority will ensure that these arrangements are kept under continual review by:

- a) The work of Internal Audit
- b) Reports prepared by managers with responsibility for aspects of this Code
- c) External Audit opinion
- d) Other review agencies and Inspectorates
- e) Opinion from the West of England Combined Authority's Statutory Officers

The Annual Governance Statement

4.7 Each year the West of England Combined Authority will publish an Annual Governance Statement. This will provide an overall assessment of the West of England Combined Authority's Corporate Governance arrangements and an

Appendix 1

appraisal of the key controls in place to manage the West of England Combined Authority's principal governance risks. The Statement will also provide details of where improvements need to be made.

4.8 The Annual Governance Statement will be reviewed by the Audit and Accounts Committee and approved by the Policy and Resources Committee, for signing by its Chair and the Chief Executive.

4.9 The Statement will be published with the West of England Combined Authority's Annual Statement of Accounts and will be audited by our External Auditors.

APPENDIX 2 - High Level Methodology for Preparing the Annual Governance Statement

