JOINT GREATER MANCHESTER COMBINED AUTHORITY & AGMA EXECUTIVE AUDIT COMMITTEE

DATE: Wednesday 19 April 2017
TIME: 12.30pm - 2pm
Venue: Scrutiny Room
Manchester Town Hall
Manchester
M60 2LA

AGENDA

1. APOLOGIES

2. CHAIR’S ANNOUNCEMENTS AND URGENT BUSINESS

3. DECLARATIONS OF INTEREST - attached

To receive declarations of interest in any item for discussion at the meeting. A blank form for declaring interests has been circulated with the agenda; please ensure that this is returned to the GMIST officer at the start of the meeting.

4. MINUTES OF THE MEETING 20 JANUARY 2017 - attached

To consider the approval, of the minutes of the GMCA Audit Committee meeting held on 20 January 2017.

5. GMCA JOINT AUDIT COMMITTEE MEMBERSHIP AND TERMS OF REFERENCE 2017-18 - attached

Report of Richard Paver, GMCA Treasurer

6. TRANSITION – attached

Report of Richard Paver, GMCA Treasurer

7. GMCA CORPORATE RISK REGISTER AND ASSURANCE MAP – attached
Report of Richard Paver, GMCA Treasurer and Tom Powell, Head of Internal Audit and Risk Management.

8. **DRAFT ANNUAL GOVERNANCE STATEMENT** – attached

Report of Liz Treacy, GMCA Monitoring Officer.

**TREASURY MANAGEMENT**

9. **TREASURY MANAGEMENT ANNUAL REPORT FOR 2016-17** - attached


10. **TREASURY MANAGEMENT STRATEGY REVISIONS FOR 2017-18** – attached


**INTERNAL AUDIT AND CONTROL MATTERS**

11. **ANNUAL ASSURANCE OPINION AND OUTTURN REPORT 2016-17** – attached

Report of Richard Paver, GMCA Treasurer and Tom Powell, Head of Internal Audit and Risk Management.

12. **EMERGENT AUDIT PLAN FOR 2017-18** – attached

Report of Richard Paver, GMCA Treasurer and Tom Powell, Head of Internal Audit and Risk Management.

**EXTERNAL AUDIT MATTERS**

13. **GMCA EXTERNAL AUDIT PLAN** - attached

Report of Mark Heap, Director, Grant Thornton.

14. **GMCA ROUTINE AUDIT ENQUIRY LETTERS** – attached

   a) Fraud letter to Audit Committee Chair
   b) Audit Chair responses
   c) Fraud letter to Treasurer
   d) Officer responses


15. **FUTURE MEETINGS 2017-18**

Dates to be confirmed following the GMCA AGM in June 2017.
**Joint Greater Manchester Combined Authority & AGMA Executive Audit Committee meeting on 19 April 2017**

**Declaration of Interests in Items appearing on the Agenda**

**NAME ________________________________**

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MINUTES OF THE JOINT GREATER MANCHESTER COMBINED AUTHORITY AND ASSOCIATION OF GREATER MANCHESTER AUTHORITIES EXECUTIVE AUDIT COMMITTEE, HELD AT MANCHESTER TOWN HALL ON 20 JANUARY 2017

Present:

Stephen Downs (Chair) Independent Member
Councillor Allen Brett Rochdale MBC
Councillor Colin McLaren Oldham Council
Councillor Michael Young Trafford Council

Officers in Attendance:

Richard Paver GMCA Treasurer
John Farrar Grant Thornton
Tom Powell GMCA Internal Audit
Damian Jarvis GMCA Internal Audit
Susan Ford GM Integrated Support Team
Paul Harris GM Integrated Support Team

AC16/42 APOLOGIES

Apologies for absence were received from Councillors John Merry (Salford CC), Pam Stewart (Wigan Council), Jean Stretton (Oldham Council) and Wendy Wild (Stockport MBC).

AC16/43 CHAIR’S ANNOUNCEMENTS AND URGENT BUSINESS

There were no announcements made by the Chair and no items of urgent business were raised.

AC16/44 DECLARATIONS OF INTEREST

There were no declarations of interest made in respect of any item on the agenda.

AC16/45 MINUTES OF THE MEETING 23 SEPTEMBER 2016

The minutes of the meeting held 23 September 2016 were submitted for consideration.

With regard to External Audit Panel Across GMCA and GM Councils (Minute AC16/40) the Chair noted that representatives of the External Auditors left the meeting prior to the discussions on this item taking place.
In relation to Corporate Risk Register and Assurance Map (Minute AC16/33 refers), it was noted that a revised version of the Risk Register was not re-circulate to Members. Members also noted that an update on the Risk Register was to be considered by the Committee later on the agenda. In addition, a Member reiterated that the potential for the establishment of a Risk Committee should be explored.

With regard to Internal Audit Progress Update (Minute AC16/34) officers noted that transition governance within the audit area of the report had an assurance opinion of moderate. Members noted that it was not anticipated that this assurance opinion was to change in the short term and for this reason the subsequent sentence in the minutes was incorrect and should be deleted.

Following a comment from a Member regarding Audit Committee membership and the frequency of meetings, officers undertook to liaise with Councillor Kieran Quinn and Tony Lloyd in this regard.

Members suggested that it would be helpful for the Committee to receive a Transition Update at each meeting.

In relation to Revised AGMA Informal Accounts 2015/16 (Minute AC16/38 refers), officers undertook to provide a statement regarding AGMA balances to future meetings of this Committee.

Resolved/-

1. That the minutes of the Joint GMCA and AGMA Audit Committee held on 23 September 2016 be approved as a correct record subject to the amendments recommended in the preamble above.
2. To agree that a Transition Update report be presented to future meetings of this Committee.
3. To agree that a statement regarding AGMA balances was to be provided to future meetings of this Committee.

ORDER OF BUSINESS

In order for Members to consider items for approval whilst the committee was still quorate, the Chair agreed to move the following items up the agenda:-

a) Item 7 Code of Corporate Governance.
c) Item 12 Appointment of External Auditors.
AC16/46    CODE OF CORPORATE GOVERNANCE

Members considered a report which presented them with the new Code of Corporate Governance which reflects GMCA’s arrangements for the current year only and is in response to the substantially changed arrangements of the new CIPFA Local Governance Framework 2016.

Members noted that 2016-17 is an important year for the GMCA as it prepares to take on significant new powers devolved from Government and are set out in a number of devolution agreements. It was also noted that the future Governance of the combined area of Greater Manchester is currently subject to a series of Parliamentary Orders which will set out the new powers of the GMCA and the elected mayor (implementing GM’s devolution agreements) and will come in to effect on 1 April 2017. Mayoral powers will take effect from 8 May 2017.

Resolved/-

1. To note the report.
2. To agree to recommend the adoption of the Code of Corporate Governance to a future meeting of the GMCA.
3. That a further update be presented to this Committee in April 2017.

AC16/47    TREASURY MANAGEMENT STRATEGY STATEMENT, BORROWING LIMITS AND ANNUAL INVESTMENT STRATEGY 2017/18 – 2019/20

A report was presented which set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2017/18 to 2019/20. Members noted that the Strategy covered the existing functions of the GMCA as the scope of the additional borrowing powers, as announced in the Autumn Statement, remained unclear.

Resolved/-

1. That the proposed Treasury Management Strategy Statement be approved, in particular:
   i) The Treasury Indicators listed at Appendix A to the report.
   ii) The MRP Strategy outlined at Appendix B to the report.
   iii) The Treasury Management Policy Statement as set out at Appendix C to the report
   iv) The Treasury Management Scheme of Delegation as set out at Appendix D to the report.
   v) The Borrowing Requirements as listed at Section 5 to the report.
vi) The Borrowing Strategy as outlined at Section 8 to the report.

vii) The Annual Investment Strategy as detailed at Section 9 to the report.

viii) The unlimited lending to the Police and Crime Commissioner for Greater Manchester, the Greater Manchester Fire and Rescue Service and the Greater Manchester Waste Disposal Authority in the period, until they become part of the GMCA, as set out in the report.

2. That GMCA be recommended to approve the proposed Treasury Management Strategy Statement.

3. To note that should further clarification on the Police and Fire requirements be required, a further paper would be considered by this Committee in April 2017.

AC16/48  UPDATE ON EXTERNAL AUDIT APPOINTMENT

[Note: Representatives from the External Auditors left the room whilst this item was considered.]

Members considered a report which provided them with an update on the proposal for the establishment of local joint procurement arrangements with neighbouring authorities for the provision of external audit services from 2017/18 and approved the GMCA Treasure to progress actions necessary to develop the procurement process. The proposed next steps were also presented.

Members noted that discussions had taken place amongst GM Local Authority Treasurers and with Public Sector Audit Appointments Limited (PSAAL) regarding opt-in to a sector led, national procurement process.

In response to an enquiry from a Member if was noted that the there was general support for this process from Districts.

The Social Value provisions were noted.

Resolved/-

1. To note the report and the current position in respect of arrangements for the appointment of external auditors.
Item 4

2. To agree to recommend to GMCA at its meeting in February 2017, to opt-in to the sector led PSAAL arrangements national procurement process.

Note Councillor Allen Brett left the meeting following the conclusion of this item. The Chair advised the Committee that the meeting was now inquorate and for this reason closed the formal meeting.
Appendix 1

INFORMAL NOTES OF THE INQUORATE MEETING OF THE JOINT GMCA AND AGMA EXECUTIVE AUDIT COMMITTEE, HELD AT MANCHESTER TOWN HALL ON 20 JANUARY 2017

Present:
Stephen Downs (Chair) Independent Member
Councillor Colin McLaren Oldham Council
Councillor Michael Young Trafford Council

Officers in Attendance:
Richard Paver GMCA Treasurer
John Farrar Grant Thornton
Tom Powell GMCA Internal Audit
Damian Jarvis GMCA Internal Audit
Susan Ford GM Integrated Support Team
Paul Harris GM Integrated Support Team

1. **AUDIT COMMITTEE WORK PROGRAMME 2016/17**

Members considered the content of the Audit Committee work programme for 2016/2017.

It was noted that the work programme was to be updated to include Transition updates.

**Resolved/-**

**Action**

Tom Powell/Susan Ford

1. To note the Work Programme for 2016/17.

2. To include Transition Updates.

2. **GMCA CORPORATE RISK REGISTER AND ASSURANCE MAP**

A report was presented which provided Members with the latest update of the corporate risk register and assurance map.
To note the corporate risk register and assurance map, as set out in the report.

3. INTERNAL AUDIT PROGRESS UPDATE REPORT

A report was presented which provided a summary on the progress of planned Internal Assurance work undertaken during 2016/17.

To note the Internal Audit Progress Update report for 2016/17.

4. EXTERNAL AUDIT UPDATE

Members received a report from Grant Thornton, External Auditors, which provided them with an update in delivering their responsibilities as GMCA’s external auditors.

To note the update from the External Auditors.

5. GMCA ANNUAL AUDIT LETTER 2015/16

Members considered the GMCA Annual Audit Letter 2015/16 which presented a summary of the key findings arising from the work undertaken by the External Auditors as GMCA for the year ended 31 March 2016.

To note the GMCA Annual Audit Letter 2015/16.

6. DATE OF NEXT MEETING

It was noted that the next Joint GMCA Audit Committee was scheduled to take place on 13 April 2017.

The clerk was requested to check with other Members of the Committee that this date was still suitable, in order for a quorum of Members to be maintained.
That the Clerk undertakes to remind Members of the arrangements for the next meeting of the GMCA and AGMA Executive Audit Committee to understand if there will be a quorum of Members present.
GMCA Audit Committee

Date: 19 April 2017
Subject: GMCA AUDIT COMMITTEE MEMBERSHIP AND TERMS OF REFERENCE 2017-18
Report of: Richard Paver, GMCA Treasurer

1. PURPOSE OF REPORT

This report sets out the necessary changes that the GMCA needs to make as it prepares to take on significant new powers devolved from government in May 2017. There has been new legislative requirements regarding the audit committees of combined authorities in the Cities and Local Government Devolution Act 2016 and Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017 (‘the Order’). The provisions of this Order come into force on the 8th May 2017.

This report ensures that GM’s Audit Committee is fully sighted on the changes required by legislation. It also sets out some proposed changes to the Committee which will ensure and to ensure that it continues to discharge its functions effectively after May 2017.

2. RECOMMENDATIONS:

Members are asked to agree that the following recommendations should be taken to the GMCA:

(i) That the GMCA’s Audit Committee’s membership is reduced from eight to six.
(ii) That there should be some flexibility regarding the composition of the Committee’s membership of six, so that the GMCA have the option of either appointing **two independent persons and four elected members** or **five elected members and one independent person** (depending on the number of appointable independent persons). It is suggested that the final decision on the Committee’s composition should be taken by the GMCA’s Annual Meeting in June.
(iii) That the Authority’s Monitoring Officer (in consultation with the GMCA Treasurer) be given delegated authority to make arrangements, for advertising, short-listing and interviewing candidates for appointment as Independent Members of the GMCA Joint Audit Committee and to make recommendations to the GMCA in respect of appointment.
(iv) That the changes set out in section 4 are incorporated in the GMCA Audit Committee’s new terms of reference.
CONTACT OFFICERS:
Richard Paver, telephone: 0161 234 3564  email: r.paver@manchester.gov.uk
Susan Ford, telephone: 0161 234 3338  email: s.ford@agma.gov.uk

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3. **MEMBERSHIP**

3.1 The 2013 Chartered Institute of Public Finance and Accountancy Guidance (CIPFA) guidance on Audit Committees suggests that smaller audit committees are more effective. In previous discussions the Committee had suggested the optimum size for the GMCA’s Audit Committee would be six. There is a legal requirement for at least one independent member to be appointed to a Combined Authority audit committee.

3.2 It is proposed that the GMCA’s Audit Committee’s membership is reduced from eight to six.

3.3 The Order specifies that an audit committee member may not be an officer of the GMCA or one of the ten districts.

3.4 It also specifies that members of the Audit Committee who are elected members should reflect the political balance of the GMCA’s combined area as far as ‘reasonably practicable’.

**Elected Members**

3.5 The GMCA will decide whether four or five elected members (depending on how many Independent Members it chooses to appoint) are appointed to its Audit Committee at its annual meeting in June 2017.

3.6 A role description and person specification for a GMCA audit committee member will be developed as part of the member appointment process. This will improve the nomination process and enable districts to consider members whose skills and experience are well suited to this role.

3.7 The current political balance of the combined area of the ten districts currently means that for a committee of four elected members the balance would be three Labour members and one Conservative member. For a committee with five elected members there would be four Labour members and one Conservative member.

**Independent Members**

3.8 The Order specifies that the GMCA’s Audit Committee must appoint at least one independent person.

3.9 It is proposed to give the GMCA flexibility to choose to appoint two independent members, which will be decided at its Annual Meeting in June 2017. The overall membership of the Audit Committee will be six.

3.10 The Order describes a person as ‘independent’ if they are:

   (a) not a member of the GMCA (in GM’s case this is the leader/city mayor of the ten districts, their substitutes or the elected mayor), a co-opted member of the GMCA or an officer of the GMCA;

   (b) not a member, co-opted member or officer of a parish council for which the authority is the principal authority; (This provision is not relevant as the GMCA is not the principal authority for any parish council);

   (c) not a relative, or close friend, of a person within sub-paragraph (a) or (b);

AND was not at any time during the 5 years ending prior to being considered for appointment to the GMCA’s Audit Committee:
(i) a member of the GMCA (in GM’s case this is the leader/city mayor of the ten districts, their substitutes or the elected mayor), a co-opted member of the GMCA or officer of the GMCA; or
(ii) a member, co-opted member or officer of a parish council for which the authority is the principal authority (again, this provision is not relevant to the GMCA).

3.11 There will be provision for an independent person to be paid an allowance and expenses in connection with performing the duties relating to their appointment. The decision to pay allowances to independent members will be based on the recommendations of a GM Independent Remuneration Panel (IRP).

3.12 Before an independent person appointment can be made the vacancy has to be publicly advertised; that applicants have to formally apply to fill the vacancy, and their appointment has been approved by a majority of the members of the GMCA. A role description for an independent person and the committee chair will be developed as part of the recruitment process.

3.13 It is proposed that the term of the appointment should be three years, renewable for one further term.

4. CHANGES TO THE COMMITTEE’S TERMS OF REFERENCE

4.1. In addition to the changes relating to membership above there are a number of issues which will be included in the re-drafted GMCA’s constitution and Audit Committee’s terms of reference.

4.2. The Committee may require members of the GMCA, the elected Mayor, members of Transport for Greater Manchester Committee or senior officers of the GMCA or Transport for Greater Manchester to attend meetings.

4.3. The Order specifies that two thirds of the members of the GMCA’s Audit Committee’s must be present in order for it to be quorate, and able to transact any business. The terms of reference of the Audit Committee will need to be amended to take this into account.

4.4. That the new terms of reference (or handbook) will set out the relationship between the different functions of the GMCA and Mayor, and AGMA and will describe the committee’s responsibilities regarding these functions.

4.5. The GMCA’s Audit Committee may be chaired by an independent person. The Chair will be appointed by the Committee.

5. RECOMMENDATIONS

5.1 Recommendations are set out at the front of the report.
GMCA AUDIT COMMITTEE

Date: 19 April 2017
Subject: GMCA TRANSITION
Report of: Richard Paver, GMCA Treasurer

1. PURPOSE OF REPORT

To briefly outline progress in relevant areas relating to the transition to the ‘enlarged’ GMCA which culminates on 8th May 2017 with the newly elected Mayor for Greater Manchester taking up post.

2. RECOMMENDATION

The Committee is asked to note the report.

CONTACT OFFICERS:
Richard Paver, telephone: 0161 234 3530 email: r.paver@manchester.gov.uk

Background Paper
None

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3. INTRODUCTION

3.1 Work has been ongoing for the past 12 months to prepare for the transition to the Combined Authority with an elected Mayor who will take up office on 8th May 2017, following the GM-wide elections on Thursday 4th May. The Committee has previously held a workshop session in November 2016 and received a subsequent update briefing at its meeting in January 2017.

3.2 This report identifies a number of areas of interest to the Committee, and reports on progress.

4. PARLIAMENTARY ORDERS

4.1 The various Orders to give effect to the Mayoral GMCA, with its wider functions (including Police, Fire and Waste) have either been approved by Ministers or will be in place prior to 8th May. The only exception to this will be the Order to give effect to the extension of borrowing powers which was announced by the Chancellor in his Autumn Statement but subject to the agreement of a ‘debt ceiling’ with Treasury.

4.2 Currently, borrowing powers exist solely for Transport purposes and Police and Fire powers will ‘transfer’ on 8th May along with Police and Crime Commissioner (PCC) and Fire responsibilities. Discussions regarding Housing and Economic Development powers have been ongoing with Government officials and proposals are ready for consideration by Treasury Ministers. Subject to Ministerial approval, the Parliamentary process can then start and it is envisioned that the necessary Order may come in to effect by the end of June. In the interim, the GMCA is unable to take on the management of the Housing Investment Fund (HIF) which will need to remain with Manchester City Council during that period. Elsewhere on the agenda is a draft Treasury Strategy, which reflects that the HIF funding will only flow through to GMCA at a later stage.

5. GMCA AUDIT COMMITTEE

5.1 There is a report elsewhere on the agenda relating to the future arrangements of the Committee.

6. ACCOUNTS AND EXTERNAL AUDIT

6.1 The PCC and Fire Orders provide that the 2016/17 financial year for both the PCC (and Chief Constable) and Fire Authority will end on 7th May 2017 and that responsibility for the closure and approval of the accounts falls to the GMCA Treasurer. Discussions are ongoing with Grant Thornton, who are responsible for their external audit, as to whether approval of the accounts will fall to the Mayor and/or the GMCA Audit Committee.

6.2 The 2017/18 External Audit of the ‘new’ GMCA will be carried out by Grant Thornton but, as yet, there have been no definitive proposals as to the audit fee. For 2018/19, the GMCA accepted the recommendation of the Audit Committee that it opts to join the Public Sector Audit Appointments Ltd (PSAA) collective procurement. At that time, the scope of the audit will include both the PCC and
Fire functions together with Waste, which will transfer to the GMCA in April 2018. Both the Chief Constable and Transport for Greater Manchester (TfGM) have similarly opted into the PSAA process and both have requested that the same external auditor is appointed as to GMCA.

6.3 Elsewhere on the agenda is a report on the emerging Internal Audit Plan issues.

7. **FINANCIAL SYSTEMS, VAT REGISTRATION AND PENSIONS**

7.1 GMCA has implemented an updated version of the financial system utilised by the Fire Authority (Business World On!) which went live on 1\textsuperscript{st} April and is now processing requisitions, orders and invoices through the system. Initially this is just being utilised by GMCA existing staff until 8\textsuperscript{th} May when Fire and PCC function will go live on the system.

7.2 Greater Manchester Police will continue to use the current PCC Oracle system to manage the monies devolved by the PCC/Mayor to the Chief Constable. The outputs of this in terms of cash flow, accounts, VAT etc will be consolidated with the remainder of the GMCA as the latter is the legal entity which holds all the monies, assets and liabilities.

7.3 The GMCA has secured VAT registration and is dealing with the necessary HMRC requirements for PAYE, Apprentice levy, IR35 and Construction Industry Tax. Payroll arrangements for GMCA staff, including Fire, are being handled through the current Fire Service iTrent system. From April, the GMCA payroll will process circa 100 staff who were either employed directly by GMCA last financial year or have TUPE’d to the GMCA on 1\textsuperscript{st} April. Fire and PCC staff are subject to TUPE on 8\textsuperscript{th} May and 30 May payroll will incorporate the increase in overall staff numbers to some 2000.

7.4 GMCA staff will continue to participate in the Local Government Pension Scheme administered by Tameside Council with the various elements of assets and investments being consolidated as from 8\textsuperscript{th} May. Uniformed Fire staff will continue in the unfunded Firefighters Pension Scheme.

8. **CONSTITUTION, FINANCIAL REGULATIONS AND CONTRACT PROCEDURE RULES**

8.1 Work on this has commenced with a view to being submitted to the GMCA Annual meeting in June 2017. The opportunity will be taken to harmonise some of the previous arrangements but a number of these will need to await the election of the Mayor in so far as Mayoral budgets are concerned.

9. **PROCURMENT**

9.1 Work is underway, led by TfGM, to identify the scope for joined up procurement across the various elements of the GMCA activities including TfGM and GMP. Recognising the under remits of the CA it should be possible to simplify some of the contractual relationships and lever more advantage from the collective spend with common suppliers.
10. TREASURY MANAGEMENT

10.1 A separate report on the agenda seeking approval of a revised draft Treasury Strategy to apply from 8th May which includes the cash flow requirements of PCC/GMP, Fire Service and, from a date in the future, the GM Housing Investment Fund.

11. RECOMMENDATION

11.1 The recommendation is set out at the front of the report.
GMCA Audit Committee

Date: 19 April 2017
Subject: GMCA Risk Register and Assurance Map
Report Of Treasurer to the Greater Manchester Combined Authority and the Head of Audit and Risk Management

PURPOSE OF THE REPORT
This report provides Members with an update on proposals to develop the GMCA risk register and assurance map.

RECOMMENDATION
Members are requested to consider and comment on the proposals for the development of the risk and assurance framework.

PRIORITY
This report is produced for Members to comment on proposals to develop the effectiveness of the risk and assurance framework in operation within the Authority.

BACKGROUND DOCUMENTS
Report presented to Audit Committee: Risk Register and Assurance Map Reports

CONTACT OFFICERS: Richard Paver, Treasurer to GMCA - 0161 234 3530
E-mail richard.paver@manchester.gov.uk

Tom Powell, Head of Audit & Risk Management - 0161 234 5273
E-mail t.powell@manchester.gov.uk
### RISKS/IMPLIEDATIONS

**Financial:** Cost of Internal Audit Services within GMCA budget.

**Staffing:** No impact

**Policy:** No impact

**Equal Opportunities – Has a Diversity Impact Assessment been conducted?** No

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**EXEMPTION FROM CALL IN**

Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency? No
1 **Background**

1.1 This report provides a short summary of proposals to develop the GMCA risk and assurance framework in 2017/18.

2 **Current Risk and Assurance Arrangements**

2.1 GMCA risk management arrangements are led by a Risk Management Group including the Treasurer and key senior officers. This group is responsible for reviewing and refreshing the Corporate Risk Register (“CRR”).

2.2 GMCA Audit Committee have received updates of the CRR at all meetings and have previously been provided with updates on the development of an assurance mapping approach. These arrangements have developed over time but it is the opinion of the GMCA Treasurer and Head of Audit and Risk Management that given the transition to new powers, functions, roles and responsibilities from 8 May 2017, a more fundamental review and refresh is required.

2.3 The GMCA, GM Fire and Rescue Service, Transport for Greater Manchester, GM Police and Crime Commissioner and GMP Chief Constable have risk and assurance arrangements in place that meet the needs of each organisation. As part of the transition to broader powers and responsibilities, work is underway to ensure that these risk management and assurance arrangements are clearly understood and are developed to ensure they are aligned to key roles, responsibilities and accountabilities from 8 May 2017.

3 **Approach to Review of Risk Management and Assurance Mapping**

3.1 The aim of the review is to establish an efficient, clear, consistent framework that provides appropriate assurance over the risk management arrangements in place for activities for which the GMCA and GM Mayor are responsible.

3.2 The review will be led by the Head of Audit and Risk Management with support from the GMCA Audit and Risk Team, external advisors and risk subject matter experts in GMFRS, GMP and TfGM. The review will also engage key officers and appropriate Members, including the Audit Committee. A meeting of the GMCA Risk Management Group is planned for the end of April at which the current CRR (appendix 1) will be updated and support for the review will be secured.

3.3 The review will be undertaken between April and June 2017 and key findings and proposals presented to Audit Committee at a future meeting. This will include proposals for future reporting of key risk management activity to Audit Committee and the provision of assurances over the management of key risks.

4 **Recommendations**

4.1 Audit Committee are asked to endorse the outline approach for a review of risk management and assurance arrangements.
## Appendix 1: GMCA Corporate Risk Register (For Update April 2017)

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<th>Response Actions</th>
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</table>
| 1   | 14/08/16     | The outcome and impacts of the EU Referendum, including role changes within Government, result in financial uncertainty and economic instability that affect the trajectory of national policy in relation to devolution and regionalism with a consequent impact on the ability to progress the GM devolution strategy as originally planned. | • Ongoing Mayoral, Leaders and Chief Officer engagement with Government departments  
• Continuation of the legislative and governance progress to deliver new functions in 2017. | 4X4=16 High | No specific additional actions proposed at this stage other than ongoing engagement and remaining abreast of developments.                                                                                      | Head of Paid Service  
Eamonn Boylan |
| 2   | 14/08/16     | Post Brexit, the value of European funding streams is withdrawn, restricted or reduced; this impacts on the ability to sustain and grow reform, regeneration and major infrastructure projects across the City Region | • Ongoing Mayoral, Leaders and Chief Officer engagement with Government departments  
• Continuation of the legislative and governance progress to deliver new functions in 2017. | 3X4=16 High | MGC, TfGM and GMCA finance team ongoing assessments of impact of withdrawal / reduction of EU funding                                                                                     | GMCA Treasurer  
Richard Paver |
| 3   | 11/01/15     | The transition of powers and responsibilities and changes in roles, responsibilities and governance arising from devolution legislation across | • Project Management support to support transition planning  
• Transition and Devolution Implementation Plan developed to ensure that the operational and | 4x4=16 High | Detailed risk and issues log for transition programme developed and maintained by Project Board.                                                                                                      | Head of Paid Service  
Eamonn Boylan |
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</thead>
</table>
| 4   | 25/08/16     | Working Well programme is not approved or delivered in accordance with the proposed GM financial and business plan; impacting financial resources and delivery of expected outcomes. Financial risks include | • Positive working relationship with DWP’s policy and commercial teams  
• Reports to WLT and GMCA  
• Grant letter in principle from DWP signed in December 2016  
• Memorandum of Understanding between GMCA and DWP to be signed in January 2017 | **4x4=16** High              | Further review of risk over next quarter.                                      | Head of Paid Service  
Eamonn Boylan        |
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| 5   | 25/08/16     | Effective approval and successful implementation of the Buses Bill is threatened by legal challenge, funding and financial risks and a challenging implementation programme. | • Continuation of the legislative and governance progress to deliver new functions in 2017.  
• Reports to TfGMC and GMCA  
• TfGM financial reporting to TfGM Board and onward to WLT and GMCA. | 4x3=12 Medium | Further review of risk with TfGM over next quarter. | Head of Paid Service Eamonn Boylan |
| 6   | 01/06/16     | If capacity or resources of GMCA senior managers, Members / Officers and districts is insufficient, or conflicts with other priorities, this may impact on the ability to deliver the transition programme and to lead on and implement the GMCA strategy. | • CA statutory basis, constitution and the GM Strategy set out shared vision with Operating Agreement in place signed by all Districts.  
• Established governance structure alongside refreshed Leader Portfolios and Wider Leadership Team roles for key strategic priorities.  
• Key roles including Director of Reform established, supported by project teams, GMIST and key officers in districts.  
• Transition project resource in place for leads on finance, HR and ICT. | 4X3=12 Medium | Ongoing capacity and financial constraints on districts impact the likelihood of the risk occurring however existing controls and governance arrangements should provide early warning of possible pressures.  
Risk re-scored as medium 25 July 2016 | Head of Paid Service Eamonn Boylan |
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<tr>
<td>7</td>
<td>25/08/16</td>
<td>Smart Ticketing is not delivered in accordance with anticipated time, cost and quality expectations of the GMCA or the public. This leads to additional cost pressures or reputational damage.</td>
<td>• Engagement with TFN project for Smart Ticketing across the North</td>
<td>4x3=12 Medium</td>
<td>Further review of risk with TfGM over next quarter.</td>
<td>Head of Paid Service Eamonn Boylan</td>
</tr>
</tbody>
</table>
| 8   | 25/08/16     | Slippage in Local Growth Deal delivery programme places funding at risk, particularly if the GMCA is unable to apply grant to alternative, eligible capital schemes in year. This also presents a risk to future funding approvals. | • Reports to WLT and GMCA  
• Monthly updates with Business, Innovation and Skills team to confirm progress  
• Regular review of both expenditure and forecasts to ensure actions can be taken to mitigate risks | 4x3=12 Medium | Further review of risk over next quarter.                                         | GMCA Treasurer Richard Paver |
| 9   | 05/01/15     | The devolution of new powers and budgets from government to the Authority under a reformed governance model will increase pressures on financial, operational and governance and scrutiny functions and this may impact adversely on the Authority, reducing its capacity to | • The GM Agreement provides a devolution model and requires an extensive evaluation programme including evaluations of the earn-back scheme and the impact of devolution.  
• Implementation plan under the leadership of the Head of the Paid Service with support of GM WLT.  
• Ongoing oversight at GMCA, WLT | 4X3 =12 Medium | Risk reduced to medium on review                                                  | Head of Paid Service Eamonn Boylan |
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|     | 05/01/15     | If it is not supported by appropriate agreements with government or is not managed effectively the 10 year £300m recyclable Housing Investment Fund created under the Devolution Agreement may not provide required numbers of homes or generate return on investment at the expected 80% recovery rate, with a risk of capital shortfall of >20% which would fall to CA and districts, and to central government repayments. | • The fund will be controlled by the elected Mayor through the new governance arrangements.  
• Assurance Statement with DCLG and HMT setting out how investments and repayments will be managed.  
• Management within the GMCA Core Investment Team and oversight by GM Investment Board                                                                                                                                                                                                 | Medium           | Internal Audits of HIF including positive certification of S151 assurance                                                                                                                                                                                                  | GMCA Treasurer  
Richard Paver |
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| 11  | 27/02/12     | Lack of understanding of the extent of and limitations to the Authority’s legal and constitutional powers following devolution may mean expectations are not managed, statutory duties are not discharged and their exercise may be legally challenged or scarce time and resources spent on objectives which the Authority is not empowered to deliver.                           | • Functions set out in GMCA Orders and Operating Agreement details arrangements for discharge of statutory functions.  
• New website in place  
• Communications Strategy in place and being further developed – particularly clear for H&SC Devolution with high level of proactive stakeholder and public communications | 3x4=12 Medium | Risk reduced to medium on review  
Whilst greater clarity over future programme for next 18 months communicated across stakeholders this risk to kept under review given ongoing changes in advance of and following appointment of Elected Mayor | Head of Paid Service  
Eamonn Boylan                          |
| 12  | 01/06/16     | HR issues arising from transition are not fully understood or managed effectively, with impact on cost and the effectiveness and affordability of future staffing structures                                                                                                                                                                                                 | • HR Workstream in place as part of Transition Plan  
• HR project resource in place reporting to Project Board | 3x4=12 Medium | Engagement with HR specialists, Trades Unions and staff groups as part of transition  
Finance Workstream to include consideration of costs and liabilities arising from HR proposals.                                                                                                                      | Head of Paid Service  
Eamonn Boylan                          |
| 13  | 01/06/16     | Inability to develop draft orders and obtain approval from districts and GMCA means legislation is not in                                                                                                                                                                                                                                                                  | • Updates and reports to WLT, Leaders and GMCA.  
• Oversight by Monitoring officer Transition Board | 5x3=15 Medium |                                                                                                                                                                                                                                                                       | GMCA Monitoring Officer                                           |
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| 14  | 27/02/12     | If there is decline or lack of unity in Districts’ shared vision, collective ownership and cohesiveness this may have an adverse impact on setting and delivering the Authority’s strategy. | - The Statutory basis, CA constitution and the GM Strategy set out shared vision and there is an Operating Agreement in place signed by all Districts.  
- Authority governance arrangements ensure debate and agreement on key issues.  
- Cohesion promoted through CEX group, WLT and Member Scrutiny. | 3X4=12 Medium | . | Liz Treacy |
| 15  | 4/6/2014     | Potential for tension between strategic agreement over Public Service Reform (PSR) taken at GM level and District capacity to undertake delivery. If this is realised it may give rise to reputational risk and may impact on service delivery. | - Agreement of overall objectives by GMCA and Districts  
- Establishment of PSR Board, Key Portfolio holders and CX Leads  
- Regular reports at GMCA/AGMA meetings  
- Director of Reform oversees GM and supports Districts in delivery.  
- Communication protocols agreed between CA and Districts. | 3X4=12 Medium | Risk maintained at medium as financial challenges in districts and required pace of change has ongoing potential for tension with GM level activity. | Head of Paid Service Eamonn Boylan |
| 16  | 27/02/12     | Potential for volatility in financial markets impacting on ability of GM to raise long-term funds at appropriate interest rates (key to success of GM funding strategy, including the Transport Fund) | - The agreed Treasury Management Strategy for investments adopts a low risk approach prioritising security and liquidity.  
- Utilising surplus cash from CA’s various projects in lieu of external borrowing thereby reducing treasury | 3X3=9 Medium | Risk score reviewed and maintained as Medium, although volatility increased there is a continued trend towards lower interest rates. | GMCA Treasurer Richard Paver |
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| 17  | 27/02/12     | Financial or operational under-performance by TfGM could impact adversely on the Authority’s reputation, its ability to produce a balanced budget and to deliver strategic priorities on schedule. | • Robust controls through TfGM Executive Board, which includes GMCA Treasurer  
• Regular budget and performance reporting to TfGMC.  
• Review and refresh of TfGM KPIs.  
• TfGMC sub-committees oversee capital projects and operation of bus and rail networks. TfGMC agreed approach to reductions in supported bus budget. | 3X3=9 Medium | Risk score reviewed and maintained as Medium. | GMCA Treasurer  
Richard Paver |
<p>| 18  | 27/02/12     | If the GM Strategy (GMS) performance management framework is ineffective, or | • TfGM report performance to TfGMC under established arrangements. | 3X3=9 Medium | Arrangements have improved and PMF shows strong | Head of GMIST |</p>
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|     |              | does not take account of information from TfGM, partners and stakeholders, it may not adequately support the Authority’s ability to make effective, timely decisions. | • Performance Management Framework in place and agreed by WLT linked to the Greater Manchester Strategy  
• GMS performance report reviewed by GM’s Joint Scrutiny and informs their work programme for the following year.  
• Annual report on performance of GMCA linked to the GMS.  
• Moderate assurance over PMF from Internal Audit | performance in a number of areas. Risk to be maintained at medium until PMF is shown to be embedded / assured. | Julie Connor |
| 19  | 06/03/13     | The Authority’s accountable body status for grant funding gives rise to a risk of claw-back or reduced future grant payments if funded project outputs are not delivered or there are significant defaults on repayments of recyclable funding. | • A financial monitoring procedure has been agreed for RGF and GPF payments and repayments to be delivered by the Core Investment Team.  
• Ongoing audit work and positive audit grant certifications for CA as accountable body. | 3X3=9 Medium | Action: Area of risk for focus in 2016/17 Internal Audit planning | GMCA Treasurer  
Richard Paver |
| 20  | 27/02/12     | Any divergence between the Authority’s aims and priorities and those of the Local Enterprise Partnership may impact adversely on continued Government support and funding and send a contradictory or inconsistent message to the | • Chair / vice-chairs of the Authority sit on the LEP Board. Local authority members are decided by the GMCA.  
• LEP minutes reported to Authority meetings.  
• Joint signatories of GM Strategy, GM Growth and Reform Plan  
• Dual representation by GMCA and | 3X2=6 Low | Risk reviewed and maintained as low. | Head of Paid Service  
Eamonn Boylan |
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</table>
|     |              | Region’s residents. | LEP on external bodies, eg GM Investment Board.  
• LEP Assurance Framework drafted to meet Government Growth Deal requirements |                |                  |            |
GMCA AUDIT COMMITTEE

Date: 19 April 2017

Subject: DRAFT ANNUAL GOVERNANCE STATEMENT 2016-17

Report of: Richard Paver

PURPOSE

The Greater Manchester Combined Authority’s (GMCA) Annual Governance Statement (AGS) for 2016-17 reflects the changes made to its recently adopted new Code of Corporate Governance. This Code, agreed by the GMCA in February 2017 is compliant with the new Chartered Institute of Public Finance and Accountancy (CIPFA) Local Governance framework (2016).

The adoption of this new Code, coupled with the transition to the new mayoral GMCA, with its substantially increased powers, has prompted a review of the structure of the AGS. One significant proposed change to the Statement is that section 4, the Governance Framework will comprise a series of tables, one for each of the CIPFA good governance principles. The tables will describe how the GMCA’s governance meets each principle and sub principles and give examples of how it is implementing them. The table below illustrates the proposed approach.

Example: A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES, AND RESPECTING THE RULE OF LAW

<table>
<thead>
<tr>
<th>Good Governance Principle</th>
<th>How the GMCA meets these principles</th>
<th>Where you can see governance in action</th>
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<tr>
<td>Behaving with integrity</td>
<td>The GMCA’s whistle-blowing policy provides protection for individuals who raise any serious concerns they have about suspected illegal or illegitimate practices.</td>
<td>The GMCA’s constitution sets out its whistle-blowing policy (pp148-9)</td>
</tr>
</tbody>
</table>

It is suggested that this approach will ensure systematic coverage for each of the seven good governance principles and enhance both the transparency and accessibility of the GMCA’s governance.
The attached draft Statement provides members with an outline structure of this 2016-17 AGS. Officers will continue to develop the draft in the light of Audit Committee’s comments, for inclusion with the GMCA’s draft accounts in July 2017.

RECOMMENDATIONS:

Members are asked to comment and review the outline draft of the Annual Governance Statement.

CONTACT OFFICERS:

Richard Paver  tel:  0161 234 3564  email: r.paver@manchester.gov.uk
Susan Ford  tel:  0161 234 3338,  email: s.ford@agma.gov.uk

BACKGROUND PAPERS:

GMCA Code of Corporate Governance

<table>
<thead>
<tr>
<th>TRACKING/PROCESS</th>
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<tr>
<td>Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board</td>
<td>No</td>
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<th>EXEMPTION FROM CALL IN</th>
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<tr>
<td>Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?</td>
<td>No</td>
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<tr>
<th>AGMA Commission</th>
<th>TfGMC</th>
<th>Scrutiny Pool</th>
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<td>N/A</td>
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## CONTENTS

1. **INTRODUCTION** ................................................................. 2  
2. **SCOPE OF RESPONSIBILITY** .............................................. 2  
3. **THE PURPOSE OF THE GOVERNANCE FRAMEWORK** .......... 3  
4. **THE GOVERNANCE FRAMEWORK** ...................................... 3  
5. **ANNUAL REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK** ................................................................. 4  
6. **PROGRESS IN ADDRESSING THE CHALLENGES IDENTIFIED IN THE 2015-16 ANNUAL GOVERNANCE STATEMENT** .............. 5  
7. **FUTURE IMPROVEMENTS TO GOVERNANCE ARRANGEMENTS** ................................................................. 6
1 INTRODUCTION

1.1 2017 is an important year for the Greater Manchester Combined Authority (GMCA) as it prepares to take on significant new powers devolved from government set out in a series of devolution agreements. The future governance of the combined area of Greater Manchester is currently subject to a series of Parliamentary orders which will set out the new powers of the GMCA and the elected mayor (implementing GM’s devolution agreements). The GMCA’s new powers will come into force on the 1st April 2017, and the mayoral powers on the 8th May 2017. A new Code of Corporate Governance for the GMCA reflecting these changes will be produced once all the orders have been agreed.

1.2 This Annual Governance Statement sets out how the GMCA meet its governance standards as set out in in Code of Corporate Governance agreed by the GMCA in February 2017. It also describes how it meets the requirements of regulation 4(3) of the Accounts and Audit [England] Regulations 2011 in relation to the publication of an Annual Governance Statement that accompanies the Annual Accounts.

1.3 Each year the GMCA publishes an Annual Governance Statement to accompany the Annual Accounts. The Statement provides an overall assessment of the GMCA’s corporate governance arrangements and how it adheres to the governance standards set out in this Code. Evidence relating to the principles of this Code is reviewed and analysed to assess the robustness of the GMCA’s governance arrangements.

1.4 This Statement includes an appraisal of the key controls in place to manage the GMCA’s principal governance risks and the effectiveness of systems and processes governing decision-making and financial control. The Statement also provides details of where improvements need to be made. Actions to address significant governance issues are identified and recorded in an action plan. The Annual Governance Statement is audited by the GMCA’s external auditors as part of the audit of the annual accounts.

2 SCOPE OF RESPONSIBILITY

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

2.2 In discharging these responsibilities, the Authority must put in place proper arrangements for the governance of its affairs and effective exercise of its functions, which includes arrangements for the management of risk. The GMCA’s Code of Corporate Governance sets out how the Authority operates, how decisions are made and the procedures which are

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1 The GMCA’s new Code meets requirements of the new CIPFA Local Governance Framework published in 2016
followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are a matter for the Authority to choose.

2.3 The Code of Corporate Governance and the GMCA’s Constitution are reviewed annually to ensure they remain consistent with the principles of the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives and Senior Managers (CIPFA/SOLACE) joint framework for delivering good governance in local government (2012). CIPFA has issued a 2016 update to the Framework, which will be applicable for the preparation of the Annual Governance Statement (AGS) from 2016/17 onwards.

2.4 This AGS explains how the GMCA has complied with the Code of Corporate Governance. The AGS also meets the requirements of the Accounts and Audit (England) Regulations 2015 regulation 6(1) which requires all relevant bodies to prepare an Annual Governance Statement (AGS).

3 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

3.1 Corporate governance describes how the GMCA directs and controls what it does. Good governance provides the conditions for the GMCA and its partners to work effectively, economically and ethically. The GMCA should carry out its functions in a way that demonstrates accountability, transparency, effectiveness, integrity, and inclusivity. Good governance will support the GMCA to pursue its vision and secure its agreed objectives.

3.2 The GMCA’s governance framework comprises the legislative requirements, principles, management systems and processes – including the GMCA’s Constitution, Operating Agreement and Protocols – and cultures and values through which the Authority exercises its leadership, fulfils its functions, and by which it is held accountable for its decisions and activities.

3.3 This Annual Governance Statement demonstrates how the GMCA is doing the right things, in the right way in a timely, inclusive, open, effective, honest and accountable manner.

3.4 The following sections of this document describe how the GMCA fulfils the requirements set out in the seven principles good governance.

4 THE GOVERNANCE FRAMEWORK

4.1 [Underway] It is proposed that this section will comprise a series of tables, one for each of the good governance principles.
EXAMPLE:
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

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The good governance principles are:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

B. Ensuring openness and comprehensive stakeholder engagement

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it

F. Managing risks and performance through robust internal control and strong public financial management

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

5 **ANNUAL REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK**

Leadership of governance and internal control

5.1 **[Underway led by Audit]**
Summary of the process of challenge and scrutiny

5.2 **[Underway led by Audit with GMIST]**
Head of Audit and Risk Management Annual Opinion 2016/17

5.3 **[Complete – see report to Audit Committee 19 April which confirms substantial overall assurance. Once agreed a summary will be included in the AGS noting areas for development. AGS to note planned review of risk and assurance framework as proposed in report to 19 April Audit Committee.]**
Annual Review of the System of Internal Audit 2016/17

5.4 [2016/17 Review completed but next review of Manchester City Council Audit Service (who provide the GMCA’s audit function) including peer review by Liverpool City Council to be completed week 1 May 2017 so this will be reflected in the final version of the AGS.]

Annual Review of the role and responsibilities of the Chief Finance Officer

5.5 As part of its work on governance and financial management across public services, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued its Statement on the Role of the Chief Financial Officer in Local Government (the Statement) in 2010. For the purpose of the GMCA's Annual Governance Statement, the role of the Chief Financial Officer has been reviewed against the governance arrangements set out in the Statement, which are required to ensure the Chief Financial Officer is able to operate effectively and perform their core duties. Full conformance with these arrangements was confirmed.

6 PROGRESS IN ADDRESSING THE CHALLENGES IDENTIFIED IN THE 2015-16 ANNUAL GOVERNANCE STATEMENT

To refresh the GMCA’s Code of Corporate Governance to reflect the powers of the new Mayoral GMCA

6.1 A revised Code of Corporate Governance was approved at January 2017’s Audit Committee describing the Greater Manchester Combined Authority’s (GMCA) governance arrangements for 2016-17 only. This code responds to the substantially changed arrangements of the new CIPFA Local Governance framework published in 2016. A new code for the GMCA will be produced for the Mayoral Greater Manchester Combined Authority once the GMCA’s new constitution has been approved Annual General Meeting in June 2017. The new code will be brought to the July 2017 Audit Committee.

To strengthen the GMCA’s approach to communications

6.2 There has been significant developments in this area of the GMCA’s work, particularly establishing an integrated way of working for communications staff from Fire, Office of the Police and Crime Commissioner, the GMCA and Health.

6.3 The Greater Manchester Scrutiny Pool established a task and finish group to review the GMCA’s approach to communications. Their review has now concluded this work and you can see the completed report on the GMCA’s website here. One of the task and finish group’s recommendations was to strengthen member and staff engagement. A specific element, raised by elected members as part of the scrutiny work, was to produce some documents designed to help Councillors across Greater Manchester to engage with local communities about devolution and the GMCA. This work stream has recently been completed thanks to some funding made available to the GMCA by the Local Government Association (LGA) who have produced a range of materials including a PowerPoint presentation, timeline and infographic showing how things work in simple terms. You can access these resources here on the GMCA website.
Strengthened and expanded scrutiny arrangements

6.4 The GMCA has established a working group to consider future arrangements for GMCA’s scrutiny function. The group’s work focussed on the following areas:

- **Structures** – To consider what would be the most effective structures to help members from across GM to scrutinise the policy and decisions of the GMCA and elected mayor;
- **Powers** – To review scrutiny’s current powers to ensure that the proposed new arrangements allow GM’s scrutiny members to provide meaningful challenge and proper checks on the decisions taken by the elected mayor and the GMCA;
- **Legal Compliance** – To ensure that GM has a scrutiny function compliant with the provisions of the Cities and Local Government Devolution Act 2016 (including any compliance with the recently approved Statutory Instrument Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Orders 2017) by the Secretary of State under the Act);
- **Health Scrutiny** – To develop proposals on how the scrutiny of health and social care should be configured to allow meaningful involvement of members while recognising that no additional decision making powers are moving from the NHS to the elected mayor or the GMCA;
- **Officer Support** – To consider how the new scrutiny arrangements could be best supported by officers.

6.5 It is planned for the group’s proposals to be taken to the GMCA in May 2017 and this section of the AGS will be updated in line with the final agreed recommendations.

Streamlining the arrangements and increasing the capacity for managing the GMCA’s grant funding

6.6 **[To be updated – Finance Team]**

Corporate Risk Register and assurance mapping

6.7 The Corporate Risk Register and is overseen activity by senior officers including the GMCA Treasurer, Monitoring Officer and Head of Paid Service. This is also informed by risk review within Transition Board which has its own programme risk and governance arrangements. This will remain a key area of focus during 2016/17.

6.8 **[Ongoing - a fundamental review and refresh of risk and assurance approach planned for May-June to reflect changes in the GMCA and ensure a clear, consistent and robust framework for the governance and assurance of risk management is proposed and outline approach to be presented to Audit Committee 19 April to be included in this section]**.

7 FUTURE IMPROVEMENTS TO GOVERNANCE ARRANGEMENTS

7.1 **[Underway]**. This will be informed by the findings of the annual opinion of the Head of Audit include a summary of the transition work stream.

7.2 A complete review and update of the GMCA’s constitution and associated policies procedures and protocols is currently underway and will be reported to the GMCA’s annual meeting.

7.3 Revised scrutiny and audit arrangements will be implemented from June 30 onwards after the GMCA’s annual meeting.
PURPOSE OF REPORT:

To report the details of the Treasury Management activities of the Greater Manchester Combined Authority (GMCA) for the 2016/17 financial year.

RECOMMENDATIONS:

The Audit Committee is asked to note the contents of the report.

CONTACT OFFICERS:

Richard Paver, tel: 0161 234 3564, email: r.paver@manchester.gov.uk

BACKGROUND PAPERS:

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<thead>
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<th>Scrutiny Pool</th>
</tr>
</thead>
<tbody>
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<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
INTRODUCTION AND BACKGROUND

1.1 Treasury Management in Local Government is regulated by the CIPFA Code of Practice on Treasury Management in Local Authorities. The Authority has adopted the Code and complies with its requirements. A primary requirement of the Code is the formulation and agreement by the Authority of a Treasury Policy Statement which sets out Authority, Committee and Chief Financial Officer responsibilities, and delegation and reporting arrangements. This was approved by the Authority on the 27th April 2012, as part of the revised Treasury Management Strategy Statement for 2012/13.

1.2 CIPFA amended the CIPFA Treasury Management in the Public Services Code of Practice in late 2011, and the revised Code recommended that local authorities include, as part of their Treasury Management Strategy Statement, the requirement to report to members at least twice a year on the activities of the Treasury Management function. This report, along with the interim Treasury Management report received by the Audit Committee of the GMCA on the 23rd September 2016, therefore ensure that the Authority meets the requirements of the Strategy, and therefore the Code.

1.3 Treasury Management in this context is defined as:

‘The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.

1.4 This annual report covers:

Section 1: Introduction and Background
Section 2: The GMCA’s Portfolio Position as at 31st March 2017
Section 3: Borrowing Strategy for 2016/17
Section 4: Treasury Borrowing in 2016/17
Section 5: Compliance with Treasury Limits and Prudential Indicators
Section 6: Investment Strategy for 2016/17
Section 7: Temporary Borrowing and Investment Outturn for 2016/17
Section 8: Conclusion

Appendix A: PWLB Interest Rates
Appendix B: Treasury Management Prudential Indicators
Appendix C: Glossary of Terms

2 THE GMCA’s PORTFOLIO POSITION AS AT 31ST MARCH 2017

2.1 The approved Treasury Management Strategy for 2016/17 highlighted a need to undertake some borrowing in 2016/17 to fund the capital programme. The level of cash balances held in the year and the ability to internally borrow meant there was no requirement for long term external borrowing. The strategy made it clear that permanent borrowing would be considered after cash balances had been utilised, as such internal borrowing would be the cheapest form of funding in the prevailing economic environment.
2.2 The GMCA’s debt position at the beginning and end of year was as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 March 2016</th>
<th>31 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal (£m)</td>
<td>Average Rate (%)</td>
</tr>
<tr>
<td>Fixed rate funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PWLB</td>
<td>389.9</td>
<td>5.19</td>
</tr>
<tr>
<td>EIB</td>
<td>450.0</td>
<td>4.22</td>
</tr>
<tr>
<td>Market</td>
<td>50.0</td>
<td>4.22</td>
</tr>
<tr>
<td></td>
<td>889.9</td>
<td>4.64</td>
</tr>
<tr>
<td>Variable rate funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PWLB</td>
<td>5.0</td>
<td>3.09</td>
</tr>
<tr>
<td>Market</td>
<td>55.0</td>
<td>4.24</td>
</tr>
<tr>
<td>Temporary</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>60.0</td>
<td>4.14</td>
</tr>
<tr>
<td>Gross debt</td>
<td>949.9</td>
<td>4.61</td>
</tr>
<tr>
<td>Temporary investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market</td>
<td>(132.8)</td>
<td>0.45</td>
</tr>
<tr>
<td>Interbank</td>
<td>(21.8)</td>
<td>0.25</td>
</tr>
<tr>
<td>Gross investments</td>
<td>(154.6)</td>
<td>0.42</td>
</tr>
</tbody>
</table>

2.3 When reviewing the table above it is important to note that the temporary borrowing and deposit figures fluctuate daily to meet the daily cash flow requirements of the Authority. The temporary figures in the table above are therefore only a snapshot at a particular point in time.

2.4 The split between fixed rate and variable rate funding has changed. This is because certain elements of the market debt, specifically LOBOs, are classed as variable when the next call date for the lender falls within the next 12 months, and consequently some of the loans shown above have moved from variable to fixed or vice versa when their call dates have passed.

2.5 The Authority has agreed no new long term borrowing in the financial year. A temporary loan was taken on the 31 March 2017 to support a short term cash flow requirement.
3 BORROWING STRATEGY FOR 2016/17

3.1 The expectation for interest rates within the 2016/17 strategy was informed by the Authority’s external Treasury Advisors. Bank Rate was expected to increase to 1.00% in the year from 0.50%. The Bank of England however reduced the rate to 0.25% on the 3rd of August 2016. This further confirmed the assumption that variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

3.2 In this scenario, the treasury strategy becomes a balance between postponing borrowing to avoid the cost of holding higher levels of investments and reduce counterparty risk, and taking borrowing to 'lock-in' long term borrowing at historically low rates and mitigate against the risk of delaying and borrowing at higher rates.

4 TREASURY BORROWING IN 2016/17

4.1 PWLB interest rates have fluctuated during the year. Overall at the year end the rates were around 25 basis points lower than those at the start of the 2016/17 financial year, as shown in the graph at Appendix A.

<table>
<thead>
<tr>
<th>PWLB Borrowing Rates 2016-17 for 1 to 50 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Date</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Date</td>
</tr>
<tr>
<td>Average</td>
</tr>
</tbody>
</table>

4.2 The Government after 1st November 2012, reduced by 0.2% the interest rates on loans from the PWLB to local authorities who provide information to Government on their plans for long-term borrowing and associated capital spending. The Authority provided the required information, and can therefore access this Certainty Rate.

4.3 In the 2012 Autumn Statement the Chancellor announced a PWLB ‘Project Rate’ would be made available for one strategic priority project identified in each of the Local Enterprise Partnerships (LEPs). The project rate would be at 0.40% below the standard PWLB rate, i.e. twice the discount provided by the Certainty Rate. The Authority was allocated £88m of this funding to be taken in 2015/16 and Government later extended the deadline to use in 2016/17. The Authority however did not need to borrow in the year, and have therefore not used the Project Rate.

4.4 The prudent approach to borrowing in the current economic environment is to utilise cash balances first, as investment rates available to the Authority are low in comparison to borrowing rates. This has meant that no long term external borrowing has taken place during the 2016/17 financial year.

4.5 A PWLB loan of £5.0m matured and was repaid during 2016/17.
5 COMPLIANCE WITH TREASURY LIMITS

5.1 During the 2016/17 financial year, the Authority operated within the treasury limits and Prudential Indicators set out in the Treasury Management Strategy Statement. Performance against the targets is shown in Appendix B.

6 INVESTMENT STRATEGY FOR 2016/17

6.1 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by the GMCA on the 22nd January 2016. The GMCA’s Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority’s investment priorities as, a) the security of capital and b) liquidity of investments.

6.2 In order to achieve a higher level of security the Treasurer introduced the following measures:

- Investments to be restricted to UK banks, building societies, local authorities and government institutions.
- Diversify the investment portfolio into more secure UK government and government backed institutions.
- Although the investment strategy allows investments up to 364 days, restrict deposits to as short a time period as feasible.

6.3 The Authority’s temporary cash balances are managed by the Treasurer in-house and invested with those institutions listed in the Authority’s Approved Lending List. Officers can confirm these institutions meet the security criteria set out in the Annual Investment Strategy and the approved limits were not breached in 2016/17.

6.4 The Transport for Greater Manchester Finance Department manages the Interbank deposits on behalf of the GMCA, and will only invest with the Debt Management Office, an agency of HM Treasury.

7 TEMPORARY BORROWING AND INVESTMENT OUTTURN FOR 2016/17

7.1 Investment rates available in the market continued to be at an historic low point throughout 2016/17. The average level of funds available for investment purposes in 2016/17 was £229.3m. The funds arose from significant variations between estimated levels of expenditure, actual spending and additional grants received from Central Government, creating material surpluses within the Authority’s cash flow. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of levy receipts, receipt of grants, and progress on the capital programme.

7.2 Detailed below is the result of the temporary investment. The Authority achieved an improvement over the benchmark return. This resulted from the number of investment opportunities in the inter-local authority market.

<table>
<thead>
<tr>
<th>Temporary Investments inc. Interbank</th>
<th>£229.3m</th>
<th>0.32%</th>
<th>0.20%</th>
</tr>
</thead>
</table>

* Average 7-day LIBID rate sourced from Capita Asset Services.
7.3 None of the institutions in which investments were made show any difficulty in repaying investments and interest in full during the year. The list of institutions in which the Authority invests is kept under continuous review.

7.4 Temporary borrowing of £10m was taken on the last day of the financial year. This was required to assist the cashflow of TfGM and was repaid by the Authority on the 7th April 2017.

8 CONCLUSION

8.1 The current borrowing position reflects the strong Balance Sheet of the Authority. Significant elements of the borrowing requirement have been agreed with the EIB and the interest rates on that funding were fixed at a time when rates were historically close to their then lows.

8.2 The Authority exceeded the benchmark rate of return on temporary investments during the 2016/17 financial year. Officers are currently examining other investment options, to see if a greater rate of return could be attracted without compromising the Authority's strong risk management position.
## APPENDIX B

### TREASURY MANAGEMENT PRUDENTIAL INDICATORS: 2016/17

<table>
<thead>
<tr>
<th>Operational Boundary for External Debt:</th>
<th>Original</th>
<th>Minimum In Year</th>
<th>Maximum In Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>£1,060.4m</td>
<td>£944.9m</td>
<td>£954.9m</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>£0.0m</td>
<td>£0.0m</td>
<td>£0.0m</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Authorised Limit for External Debt:</th>
<th>Original</th>
<th>Actual as at 31 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>£1,249.9m</td>
<td>£944.9m</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>£0.0m</td>
<td>£0.0m</td>
</tr>
</tbody>
</table>

| Authority has adopted CIPFA’s Code of Practice for Treasury Management in the Public Services | Yes | Yes |

<table>
<thead>
<tr>
<th>Upper Limits for Interest Rate Exposure:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Borrowing at Fixed Rate as a percentage of Total Net Borrowing</td>
<td>146%</td>
<td>132.0%</td>
</tr>
<tr>
<td>Net Borrowing at Variable Rate as a percentage of Total Net Borrowing</td>
<td>11%</td>
<td>-6.9%</td>
</tr>
</tbody>
</table>

| Upper Limit for Principal Sums Invested for over 364 days | £0 | £0 |

<table>
<thead>
<tr>
<th>Maturity structure of Fixed Rate Borrowing</th>
<th>Lower Limit</th>
<th>Upper Limit</th>
<th>Actual as at 31 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/17 Original</td>
<td>2016/17 Original</td>
<td>Actual as at 31 March 2017</td>
<td></td>
</tr>
<tr>
<td>under 12 months</td>
<td>0%</td>
<td>30%</td>
<td>0.2%</td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>0%</td>
<td>40%</td>
<td>1.3%</td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>0%</td>
<td>35%</td>
<td>11.5%</td>
</tr>
<tr>
<td>5 years and within 10 years</td>
<td>0%</td>
<td>40%</td>
<td>12.9%</td>
</tr>
<tr>
<td>10 years and above</td>
<td>55%</td>
<td>90%</td>
<td>74.2%</td>
</tr>
</tbody>
</table>
Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Counterparty – one of the opposing parties involved in a borrowing or investment transaction

Credit Rating – A qualified assessment and formal evaluation of an institution’s (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount – Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon – High/Low interest rate

LIBID (London Interbank Bid Rate) – This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) – This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity – The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.
LOBO (Lender Option Borrower Option) – This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Authority vulnerable to current interest rates in that year.

Monetary Policy Committee – the independent body that determines Bank Rate.

Operational Boundary – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium – Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Authority to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government’s Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more then one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.
GMCA Audit Committee

Date: 19 April 2017
Subject: REVISED GMCA TREASURY MANAGEMENT STRATEGY STATEMENT, BORROWING LIMITS AND ANNUAL INVESTMENT STRATEGY 2017/18 - 2019/20

Report of: Richard Paver, Treasurer

PURPOSE OF REPORT
To set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2017/18 to 2019/20 for the GMCA from the 8th May 2017, incorporating the Police and Crime Commissioner and fire functions which transfer at that time. The Strategy also sets out the Borrowing Limits and Prudential Indicators for the GMCA if the Housing Investment Fund is included, which is dependent on the Authority being granted the necessary borrowing powers to allow the funds currently held by Manchester City Council to transfer.

RECOMMENDATIONS:
The Audit Committee and Authority are asked to approve the proposed Treasury Management Strategy Statement to apply from the 8th May 2017, in particular:

- The Treasury Indicators listed in Appendix A of this report.
- The MRP Strategy outlined in Appendix B.
- The Treasury Management Policy Statement at Appendix C
- The Treasury Management Scheme of Delegation at Appendix D
- The Borrowing Requirements listed in Section 5.
- The Borrowing Strategy outlined in Section 8.
- The Annual Investment Strategy detailed in Section 9.
- Unlimited lending to the Greater Manchester Waste Disposal Authority in the period until it becomes part of the GMCA.

CONTACT OFFICERS:
Richard Paver, telephone: 0161 234 3530, email: richard.paver@manchester.gov.uk

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<tbody>
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</table>
INTRODUCTION

Background

1.1 Treasury management is defined as:
‘The management of the Authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.’

Statutory requirements

1.2 The Local Government Act 2003 (the Act) and supporting regulations require the Authority to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

1.3 The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as Section 9 of this report); the Strategy sets out the Authority’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.4 The Department of Communities and Local Government (DCLG) issued revised Investment guidance which came into effect from the 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

CIPFA requirements

1.5 The CIPFA Code of Practice on Treasury Management (Revised November 2009) was adopted by this Authority on the 1 April 2011. The Code was revised in November 2011, acknowledging the effect the Localism Bill could have on local authority treasury management. This strategy has been prepared in accordance with the revised November 2011 Code.

1.6 The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority’s treasury management activities;

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives;

c) Receipt by the Authority of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year;

d) Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

e) Delegation by the Authority of the role of responsible body for treasury management strategy and practices, budget consideration and approval, monitoring and selection of external service providers to a specific named body. For this Authority the delegated body is the Audit Committee.
**Treasury Management Strategy for 2017/18 (from 8 May 2017)**

1.7 The suggested strategy in respect of the following aspects of the treasury management function is based upon the treasury officers’ views on interest rates, supplemented with leading market forecasts provided by the Authority’s treasury advisor, Capita Asset Services.

The strategy covers:

- Section 1: Introduction
- Section 2: Transitional Arrangements
- Section 3: Treasury Limits
- Section 4: Current Portfolio Position
- Section 5: Borrowing Requirement
- Section 6: Prudential and Treasury Indicators for 2017/18 to 2019/20
- Section 7: Prospects for Interest Rates
- Section 8: Borrowing Strategy
- Section 9: Annual Investment Strategy
- Section 10: MRP Strategy
- Section 11: Recommendations

Appendix A: List of Prudential and Treasury Indicators for approval
Appendix B: MRP Strategy
Appendix C: Treasury Management Policy Statement
Appendix D: Treasury Management Scheme of Delegation
Appendix E: The Treasury Management Role of the Section 151 Officer
Appendix F: Economic Background
Appendix G: Prospects for Interest Rates
Appendix H: Glossary of Terms

**Balanced Budget Requirement**

1.8 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Authority to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional to capital expenditure; and
- increases in running costs from new capital projects,

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

2. TRANSITIONAL ARRANGEMENTS

2.1 Currently the Combined Authority’s Treasury Management functions are operated under a service level agreement by Manchester City Council Treasury Management which reports directly to the GMCA Treasurer. It is intended that this arrangement continues.

2.2 This report updates the strategy approved in January by incorporating the treasury management portfolios and borrowing plans for the Police & Crime Commissioner.
for Greater Manchester (GMPCC) and the Greater Manchester Fire & Rescue Service (GMFRS), which are transferred to the Greater Manchester Combined Authority from the 8th of May 2017. The functions of the Greater Manchester Waste Disposal Authority (GMWDA) will transfer in April 2018.

2.3 The treasury portfolio position for the Authority will be managed at Authority-level, which means that the combined cash flows of the three consolidated organisations will be taken into account when investing temporary surplus funds or making arrangements to meet borrowing needs.

2.5 It is not yet confirmed what borrowing powers the GMCA will have next year which, in addition to the Police and Fire debt portfolios, would allow specific components of the future GMCA remit to also transfer. For example the £300m Housing Investment Fund (HIF), a Greater Manchester initiative arranged with the Homes and Communities Agency (HCA), is currently operated on behalf of Greater Manchester by Manchester City Council. The transfer of other functions are subject to ongoing negotiations with Government and will be the subject of an overall “debt ceiling” which will be agreed once the functions to be covered are clear. It is hoped that the necessary Order and accompanying Debt Deal will be in place by the end of June 2017.

2.7 There are therefore two sets of borrowing requirements and prudential indicators in this report; one excluding HIF and one including HIF.

3. TREASURY LIMITS AND PRUDENTIAL INDICATORS

3.1 It is a statutory duty under Section 3 of the Act and supporting regulations that the Authority determines and keeps under review how much it can afford to borrow. The amount so determined is termed the ‘Affordable Borrowing Limit’. In England the Authorised Limit represents the legislative limit specified in the Act.

3.2 The Authority must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future transport levy levels is acceptable.

3.3 Whilst termed an Affordable Borrowing Limit, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

3.4 The Authorised Limit is one of the Prudential and Treasury indicators recommended by the Code, which the Authority operates for monitoring its treasury operations. The full set of indicators recommended by the Code and used by the Authority is listed below. A note of the purpose of these indicators together with their suggested levels for 2017/18 can be found in Appendix A of this report.

3.5 The Prudential Indicators are:

- Authorised Limit – external debt
- Operational Boundary – external debt
- Actual external debt
- Upper limit for total principal sums invested for over 364 days
- Upper limit for fixed interest rate deposits
- Upper limit for variable interest rate deposits
- Maturity structure of fixed rate borrowing during the year
- Confirmation the Authority has adopted the CIPFA Treasury Management Code

4. **CURRENT PORTFOLIO POSITION**

4.1 The Authority’s treasury portfolio position, including GMPCC and GMFRS, at 31 March 2017 is:

<table>
<thead>
<tr>
<th>Principal</th>
<th>£m</th>
<th>Ave rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed rate funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PWLB</td>
<td>464.4</td>
<td>5.21</td>
</tr>
<tr>
<td>Market</td>
<td>60.0</td>
<td>4.22</td>
</tr>
<tr>
<td>EIB</td>
<td>450.0</td>
<td>4.22</td>
</tr>
<tr>
<td></td>
<td>974.4</td>
<td></td>
</tr>
<tr>
<td>Variable rate funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PWLB</td>
<td>5.0</td>
<td>3.37</td>
</tr>
<tr>
<td>Market</td>
<td>45.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Temporary</td>
<td>47.5</td>
<td>0.4</td>
</tr>
<tr>
<td></td>
<td>97.5</td>
<td></td>
</tr>
<tr>
<td>Gross debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td></td>
<td>1071.9</td>
</tr>
<tr>
<td>Temporary Investments</td>
<td>Market</td>
<td>(175.5)</td>
</tr>
<tr>
<td>Net debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Financing Requirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Debt</td>
<td>1071.9</td>
<td></td>
</tr>
<tr>
<td>Internal Borrowing</td>
<td>406.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,477.9</td>
<td></td>
</tr>
</tbody>
</table>

4.2 The combined prudential indicators are listed in the tables below, with the second table also including the Housing Investment Fund figures. Individual indicators are also shown within appendix A:

<table>
<thead>
<tr>
<th>PRUDENTIAL INDICATORS</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td></td>
</tr>
<tr>
<td>1 Capital Expenditure</td>
<td>305,939</td>
<td>373,789</td>
<td>304,735</td>
</tr>
<tr>
<td>2 Ratio of Gross Financing Costs to Net Revenue Stream</td>
<td>12%</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>3 Capital Financing Requirements as at 31 March</td>
<td>1,490,975</td>
<td>1,677,842</td>
<td>1,796,358</td>
</tr>
<tr>
<td>4 Incremental impact of Capital Investments on Levy</td>
<td>-</td>
<td>-</td>
<td>3,522</td>
</tr>
<tr>
<td>Incremental impact of Capital Investments on Council Tax (£.p)</td>
<td>0.35</td>
<td>0.12</td>
<td>0.47</td>
</tr>
<tr>
<td>5 Ratio of Gross Debt to Capital Financing Requirements</td>
<td>73%</td>
<td>77%</td>
<td>78%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TREASURY INDICATORS</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised Limit for External Debt Borrowing</td>
<td>1,489,717</td>
<td>1,494,817</td>
<td>1,487,183</td>
</tr>
</tbody>
</table>
### PRUDENTIAL INDICATORS

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Long Term Liabilities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,489,717</td>
<td>1,494,817</td>
</tr>
</tbody>
</table>

8. **Operational Boundary for External Debt**

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>1,208,967</td>
<td>1,364,067</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,208,967</td>
<td>1,364,067</td>
</tr>
</tbody>
</table>

9. **Actual External Debt**

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,085,808</td>
<td>1,289,422</td>
<td>1,406,691</td>
</tr>
</tbody>
</table>

10. **Upper Limit for Fixed Interest Rate Exposure**

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Borrowing re fixed rate borrowing as % of Total Net Borrowing</td>
<td>150%</td>
<td>140%</td>
</tr>
</tbody>
</table>

11. **Upper Limit for Variable Interest Rate Exposure**

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Borrowing re variable rate borrowing as % of Total Net Borrowing</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

12. **Upper Limit for Principal Sums Invested for over 364 days**

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

13. **Maturity Structure of Fixed Rate borrowing during 2017-18**

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 12 months</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>5 years and within 10 years</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>10 years and above</td>
<td>100%</td>
<td>20%</td>
</tr>
</tbody>
</table>

14. Authority has adopted CIPFA’s Code of Practice for Treasury Management in the Public Services

Yes

---

### Combined prudential indicators (including Housing Investment Fund)

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditure</td>
<td>460,939</td>
<td>533,789</td>
</tr>
<tr>
<td>Ratio of Gross Financing Costs to Net Revenue Stream</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Capital Financing Requirements as at 31 March</td>
<td>1,645,975</td>
<td>1,992,842</td>
</tr>
<tr>
<td>Incremental impact of Capital Investments on Levy</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Incremental impact of Capital Investments on Council Tax (£.p)</td>
<td>0.35</td>
<td>0.12</td>
</tr>
<tr>
<td>Ratio of Gross Debt to Capital Financing Requirements</td>
<td>75%</td>
<td>80%</td>
</tr>
</tbody>
</table>

---

### TREASURY INDICATORS

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised Limit for External Debt</td>
<td>1,644,717</td>
<td>1,794,817</td>
</tr>
<tr>
<td>Borrowing</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,629,717</td>
<td>1,794,817</td>
</tr>
</tbody>
</table>

8. **Operational Boundary for External Debt**

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>1,363,967</td>
<td>1,664,067</td>
</tr>
</tbody>
</table>
5. BORROWING REQUIREMENT (excluding Housing Investment Fund)

5.1 The figures detailed in the table below show the funding of the 2016/17 capital programme and are based on information provided by Government. This includes significant cash receipts for schemes such as SEMMS and the Growth Deal. Should these receipts or expenditure profiles be materially different from the levels forecast, the borrowing requirements shown below could alter, in both scale and profile.

<table>
<thead>
<tr>
<th>2016/17 (£'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned Capital Expenditure</td>
</tr>
<tr>
<td>Less;</td>
</tr>
<tr>
<td>Grants Payable in Year</td>
</tr>
<tr>
<td>Grants B/fwd to be applied</td>
</tr>
<tr>
<td>External Contributions</td>
</tr>
<tr>
<td>Capital Receipts</td>
</tr>
<tr>
<td>Revenue Contributions</td>
</tr>
<tr>
<td>Capital Fund</td>
</tr>
<tr>
<td>Transfer from Reserves</td>
</tr>
<tr>
<td><strong>Borrowing Requirement</strong></td>
</tr>
</tbody>
</table>
5.2 The potential long-term cash borrowing requirements over the next three years, including borrowing for Metrolink and the Transport Fund Programme, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017/18 £'000</th>
<th>2018/19 £'000</th>
<th>2019/20 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned Capital Expenditure</td>
<td>305,939</td>
<td>373,789</td>
<td>304,735</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants Payable in Year</td>
<td>202,447</td>
<td>144,934</td>
<td>151,064</td>
</tr>
<tr>
<td>Capital Receipts</td>
<td>11,081</td>
<td>11,523</td>
<td>10,773</td>
</tr>
<tr>
<td>External Inc - Capital Schemes</td>
<td>9,450</td>
<td>8,905</td>
<td>6,970</td>
</tr>
<tr>
<td>Cash / Deposits held at 1st April</td>
<td>175,471</td>
<td>67,809</td>
<td>64,615</td>
</tr>
<tr>
<td>Working Capital / Short Term Cash Movements</td>
<td>(155,129)</td>
<td>(72,350)</td>
<td>(60,849)</td>
</tr>
<tr>
<td><strong>Cash Borrowing Requirement</strong></td>
<td><strong>62,619</strong></td>
<td><strong>212,968</strong></td>
<td><strong>132,162</strong></td>
</tr>
</tbody>
</table>

6. PRUDENTIAL AND TREASURY INDICATORS FOR 2017/18 TO 2019/20

6.1 Prudential and Treasury Indicators (as set out in Appendix A to this report) are relevant for the purpose of setting an integrated treasury management strategy.

6.2 The Authority is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The revised 2009 Code was adopted on the 1 April 2011 and this strategy has been prepared under the revised code of November 2011.

7. PROSPECTS FOR INTEREST RATES

7.1 The Authority has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Appendix G draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following gives the Capita’s central view:

Capita Asset Services Bank Rate forecast for financial year ends (March)

- 2017: 0.25%
- 2018: 0.25%
- 2019: 0.25%
- 2020: 0.75%

7.2 There is no certainty to these forecasts. In an attempt to stimulate the economy the Bank of England in August 2016 reduced Base Rate to 0.25%, the first change since 2009. If economic growth begins to slow or weaken more than currently expected it is likely rates will remain lower for longer. Conversely, if growth is stronger than expected the Bank Rate may increase sooner than forecast. A detailed view of the current economic background prepared by Capita is at Appendix F to this report.

8. BORROWING STRATEGY

8.1 The Authority’s borrowing strategy should utilise the annual provision it is required to make to reduce debt, in the form of its Minimum Revenue Provision (MRP). This means that the most prudent strategy now is to seek to borrow in the medium term
with maturities that match the estimated MRP that is generated in that period, thus avoiding an accumulation of cash on the Balance Sheet that would need to be invested (at a net cost and investment risk to the Authority). This does not preclude short term borrowing, which may be required to support cash flow or to take advantage of the yield curve.

8.2 For example the current estimates of MRP provision for the next three years are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>MRP</td>
<td>£36,158</td>
<td>£42,358</td>
<td>£46,299</td>
</tr>
</tbody>
</table>

**Borrowing Options**

8.3 The Authority’s borrowing strategy will seek to utilise internal borrowing if feasible, as forgoing investment income at historically low rates can provide value for money. However as the overall forecast is for long term borrowing rates to increase over the next few years, consideration must also be given to weighing the short term advantage of internal borrowing against potential long term costs. This is if the opportunity is missed for taking loans at longer term rates where the rates are expected to be higher in future years.

8.4 After this, new borrowing will be considered in the forms noted below. At the time of the borrowing requirement the options will be evaluated alongside their availability and an assessment made regarding which option will provide value for money. The options described below are not presented in a hierarchical order. At the point of seeking to arrange borrowing all options will be reviewed.

i Public Works Loan Board (PWLB)

PWLB borrowing is available for between 1 and 50 year maturities on various bases. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt, and allow the Authority to align maturities to MRP.

In the March 2012 Budget, the Chancellor announced the availability of a PWLB ‘Certainty Rate’ for local authorities, which could be accessed upon the submission of data around borrowing plans for individual authorities. The Authority submitted its return in April 2014. The certainty rate allows a local authority to borrow from the PWLB at 0.20% below their published rates. The current arrangement is available until March 2017.

The Government are also currently consulting with local authorities regarding the potential introduction of a PWLB Infrastructure Rate which will be based at gilts plus 60 basis points.

These reductions, alongside the flexibility the PWLB provides in terms of loan structures and maturity dates, together with the current lack of availability of market debt options, suggests that should long term borrowing be required, PWLB borrowing might provide the best value for money.

The Capita Asset Services forecast for the PWLB Certainty Rate is as follows:
<table>
<thead>
<tr>
<th></th>
<th>Mar 17</th>
<th>Jun 17</th>
<th>Sep 17</th>
<th>Dec 17</th>
<th>Mar 18</th>
<th>Mar 19</th>
<th>Mar 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Rate</td>
<td>0.25%</td>
<td>0.25%</td>
<td>0.25%</td>
<td>0.25%</td>
<td>0.25%</td>
<td>0.25%</td>
<td>0.75%</td>
</tr>
<tr>
<td>5 yr PWLB rate</td>
<td>1.60%</td>
<td>1.60%</td>
<td>1.60%</td>
<td>1.60%</td>
<td>1.70%</td>
<td>1.80%</td>
<td>2.00%</td>
</tr>
<tr>
<td>10 yr PWLB rate</td>
<td>2.30%</td>
<td>2.30%</td>
<td>2.30%</td>
<td>2.30%</td>
<td>2.30%</td>
<td>2.50%</td>
<td>2.70%</td>
</tr>
<tr>
<td>25 yr PWLB rate</td>
<td>2.90%</td>
<td>2.90%</td>
<td>2.90%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.20%</td>
<td>3.40%</td>
</tr>
<tr>
<td>50 yr PWLB rate</td>
<td>2.70%</td>
<td>2.70%</td>
<td>2.70%</td>
<td>2.80%</td>
<td>2.80%</td>
<td>3.00%</td>
<td>3.20%</td>
</tr>
</tbody>
</table>

A more detailed Capita forecast is included in Appendix G to this report.

**ii European Investment Bank (EIB)**

During 2011/12 the Authority agreed £450m of funding from the European Investment Bank (EIB) and this loan facility was taken in tranches up to December 2015. A further loan of £150m was agreed in December 2012. This facility was due to expire in December 2015, but negotiations were agreed with the EIB to extend the facility for a further 24 months.

Rates can be forward fixed for borrowing from the EIB and this will continue to be considered as a primary borrowing source if the arrangement represents better value for money. There has not been any advice from the EIB that post Brexit arrangements will change.

The EIB’s rates for borrowing are generally favourable compared to PWLB, allowing for existing planned future borrowing from PWLB to be replaced by cheaper funding from the EIB. The EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, and any monies borrowed are part of the Authority’s overall pooled borrowing.

**iii Third Party Loans**

These are loans from third parties that are offered at lower than market rates, for example, Salix Finance Ltd is offering loans to the public sector at 0% to be used specifically to improve their energy efficiency and reduce carbon emissions.

**iv Housing Investment Funding**

Currently operated on behalf of Greater Manchester by Manchester City Council, but this should novate if GMCA borrowing powers for housing are confirmed. The funding from Government is held as an interest free loan, until such time as an investment approval is made. At this point, the approved element of the loan becomes risk-based, with any losses met by Government (up to 20%) or by guarantee from the ten Greater Manchester authorities (including Manchester). The interest rate on the loan from Government, once an investment is made, is at the EU Reference rate plus ‘State Aid’ premium, and is funded from the interest received from the investments made as part of the Housing Investment Fund. As part of the Housing Investment Fund funding relating to capital receipts from the HCA will also be transferred to the Authority. This funding is also held as an interest free loan, and similarly has a risk based return to Government.
v Municipal Bond Agency

The Municipal Bond Agency has now been established to offer loans to local authorities. A first bond has yet to be issued and it is hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Authority is a shareholder in the Bonds Agency and may make use of this new source of borrowing as and when appropriate. The Authority will have a particular interest when the Agency starts to issue shorter dated bonds, and act as a facilitator of inter-authority medium term loans. Prior approval will be sought from the Authority if it is considered accessing the Municipal Bond Agency will offer the most prudent form of funding.

vi Market Loans including inter-Local Authority advances

Both short and long term loans are often available in the inter Local Authority market in addition to offers from the general market.

8.5 These types of borrowing will need to be evaluated alongside their availability, particularly whilst there is a very limited availability of traditional market loans. The traditional market loans available tend to be LOBOs and they are not currently offered at competitive rates of interest. LOBOs provide the lender with future options to increase the interest rate, whilst the local authority has the option to repay if the increase in the rate is unacceptable to them.

Sensitivity of the forecast

8.6 In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Authority officers, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecast, adopting the following responses to a change of sentiment:

- **If it were felt that there was a significant risk of a sharp FALL in long and short term rates**, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed.

- **If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that current forecast**, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, the portfolio position will be re-appraised. The likely action will be that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

External v. Internal borrowing

8.7 The next financial year is again expected to be one of very low Bank Rate. This provides a continuation of the window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.

8.8 Over the next three years, investment rates are expected to be significantly below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by limiting new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt. This is referred to as internal borrowing and maximises short term savings.

8.9 However, short term savings from avoiding new long term external borrowing in 2017/18 will also be weighed against the potential for incurring additional long term extra costs by delaying new external borrowing until later years when longer term rates are forecast to be significantly higher. Consideration will also be given to forward fixing rates whilst rates are favourable.
8.10 Against this background caution will be adopted within 2017/18 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

**Policy on borrowing in advance of need**

8.11 Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

With regard to the transition to a Combined Authority with wider functions, consideration should be given to borrowing in advance of need to support other parts of Greater Manchester with a borrowing requirement as the Combined Authority may be able to achieve lower interest rates on any such debt.

In determining whether borrowing is undertaken in advance of need the Authority will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt profile which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider the impact of borrowing in advance temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them; and
- consider the interests and funding needs of GM-wide bodies ahead of them formally becoming part of the GMCA.

**Debt rescheduling**

8.12 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt has been compounded since the Comprehensive Spending Review of October 2010 by a considerable further widening of the difference between new borrowing and repayment rates. This has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

8.13 As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of the premiums incurred, their short term nature, and the likely cost of refinancing those short term loans once they mature,
compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Authority’s maturity profile as in recent years there has been a skew towards longer dated PWLB.

8.14 The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined in Section 8 of this report;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)

8.15 The Authority will also consider running down investment balances to repay debt early as short term rates on investments are likely to be lower than rates paid on current debt.

8.16 All rescheduling will be reported to the Authority, as part of the normal revenue monitoring, although it is considered unlikely that there will be any opportunities to reschedule debt during the 2017/18 financial year.

9. ANNUAL INVESTMENT STRATEGY

Introduction

9.1 The Authority will have regard to the DCLG’s Guidance on Local Government Investments (the Guidance) and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Authority’s investment priorities are:
- the security of capital; and
- the liquidity of its investments

9.2 The Authority will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity. The risk appetite of the Authority is low in order to give priority to security of its investments.

9.3 The borrowing of monies by an Authority purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

9.4 These principles would be important in normal circumstances, but the Icelandic banks crisis, and the financial difficulties faced by UK and international banks that followed, have placed security of investments at the forefront of Treasury Management investment policy.

Changes to Credit Rating Methodology

9.5 Through much of the financial crisis the main rating agencies (Fitch, Moody’s and Standard & Poor’s) provided some institutions with a ratings ‘uplift’ due to implied levels of sovereign support (government backing should an institution fail). In response to the evolving regulatory regime and the declining probability of government support, the rating agencies are removing these ‘uplifts’. The result of this is that some institutions ratings have been downgraded by up to two notches.

9.6 The rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the removal of the implied level of sovereign support that were built into ratings throughout the financial crisis. The removal of sovereign support is taking place now that the regulatory and economic environments have ensured that financial institutions are much stronger and less
prone to failure in a financial crisis. As a result of these rating agency changes, the credit element of Capita’s future methodology focuses solely on the Short and Long Term ratings of an institution, and officers believe that the Authority should follow the same methodology.

9.7 The key change to the regulatory framework in respect of banks is the introduction of the European Union’s Banking Recovery and Resolution Directive (BRRD). In response to the banking crisis some Governments used taxpayer funds to support banks in danger of failing. In future BRRD will require ‘bail-in’ to be applied in such a scenario. In the UK this means that after shareholders’ equity, depositors’ funds comprising balances over £85k (linked to the value of the Euro) will be used to support a bank at risk. The £85k threshold is not available to Local Authorities and therefore all their bank deposits will be at risk of bail-in. This increases the risk to the Authority of holding unsecured cash deposits with banks and building societies.

Investment Policy

9.8 As previously, the Authority will not just utilise ratings as the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to maintain a monitor on market pricing such as ‘credit default swaps’\(^1\) and overlay that information on top of the credit ratings.

9.9 Investment in banks and building societies are now exposed to bail-in risk as described above and rather than increase investment in banks and building societies in practice lower limits for investment in banks and building societies have been adopted in 2016/17. This is apart from the limit with Barclays bank; Barclays is the Authority’s main banker and is the investment destination of last resort for the close of daily trading. These revised limits are interim operational changes and to preserve flexibility should circumstances change the overall investment limits approved for banks and building societies for 2016/17 will be maintained in 2017/18.

9.10 The investment constraint brought by bail-in risk means the Authority needs to continue to identify ways that it can broaden and diversify its basis for lending. During 2016/17 after the reduced level of bank deposits, the strategy saw a significant proportion of the Authority’s investments placed with the Government (via the DMO) or with other Local Authorities. In the financial year 2016/17 to December 2016 an average of c.93% of the investment portfolio was with the DMO and other Local Authorities. This highlights the relatively low rate of credit risk that the Authority takes when investing.

9.11 For 2017/18 investment the Authority will consider trading in Treasury Bills, Certificates of Deposit, Covered Bonds and Money Market Funds. In addition to diversification of the investment portfolio each of these options offer the Authority benefits which are noted in sections 9.24 to 9.31 below. Treasury Bills, Certificates of Deposit and Covered Bonds require the Authority to have specific custodian and broker facilities. This provision has been opened in 2016/17, however work is continuing to open further access points to markets. Officers are also working to

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\(^1\) A credit default swap is a financial instrument that effectively provides the holder insurance against a loan defaulting. The CDS spread is the difference between the price at which providers are willing to sell the swap, and the price at which buyers are willing to buy. A relatively high spread may suggest that the loan is more likely to default.
ensure they are in a position to monitor these new markets to identify opportunities for benefit.

9.12 It should be noted that, whilst seeking to broaden the investment base, officers will seek to limit the level of risk taken by the Authority. It is not expected that the measures considered above will have a significant impact on the rates of return the Authority currently achieves.

**Specified and Non-Specified Investments**

9.13 Investment instruments identified for use in the financial year are listed below, and are all specified investments. Any proposals to use other non-specified investments will be reported to Members for approval.

9.14 Specified investments are sterling denominated, with maturities up to a maximum of one year and meet the minimum ‘high’ rating criteria where applicable. Further details about some of the specified investments below can be found in later paragraphs within Section 9.

<table>
<thead>
<tr>
<th>Investment Instrument</th>
<th>Minimum ‘High’ Credit Criteria</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term deposits – banks and building societies*</td>
<td>See Para 9.32.</td>
<td>In-house</td>
</tr>
<tr>
<td>Term deposits – other Local Authorities</td>
<td>High security. Only one or two local authorities credit-rated</td>
<td>In-house</td>
</tr>
<tr>
<td>Debt Management Agency Deposit Facility</td>
<td>UK Government backed</td>
<td>In-house</td>
</tr>
<tr>
<td>Certificates of deposit issued by banks and building societies covered by UK Government guarantees</td>
<td>UK Government explicit guarantee</td>
<td>In-house</td>
</tr>
<tr>
<td>Money Market Funds (MMFs)</td>
<td>$AAA_m$</td>
<td>In-house</td>
</tr>
<tr>
<td>Non-UK Banks/ Building Societies</td>
<td>Domiciled in a country which has a minimum sovereign Long Term rating of AAA</td>
<td>In-house</td>
</tr>
<tr>
<td>Treasury Bills</td>
<td>UK Government backed</td>
<td>In-house</td>
</tr>
<tr>
<td>Covered Bonds</td>
<td>$AAA$</td>
<td>In-house</td>
</tr>
</tbody>
</table>

* Banks & Building Societies

The Authority will keep the investment balance below or at the maximum limit based on the institutions credit rating as detailed in paragraph 9.20. If this limit is breached, for example due to significant late receipts, the Treasurer will be notified as soon as possible after the breach, along with the reasons for it. Please note this relates to specific investments and not balances held within the Authority's bank accounts, including the general bank account. The balance will be kept to the maximum investment limit of the institution as detailed in paragraph 9.20, with any breaches reported to the Treasurer.
Creditworthiness policy

9.15 The Authority applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modeling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody’s and Standard & Poor’s. Capita supplement the credit ratings of counterparties with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to provide early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

9.16 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. This classification is called durational banding.

9.17 The Authority has regard to Capita’s approach to assessing creditworthiness when selecting counterparties. It will not apply the approach of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency’s ratings.

9.18 In summary therefore the Authority will approach assessment of creditworthiness by using the Capita counterparty list as a starting point, and then applying as an overlay its own counterparty limits and durations. All credit ratings will be monitored on a daily basis and re-assessed weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Authority’s minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of Credit Ratings, the Authority will be advised of information in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Authority’s lending list.

9.19 Sole reliance will not be placed on the use of this external service. In addition the Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support. The Authority will assess investments only against the criteria listed above, and will not seek to evaluate an organisation’s ethical policies when making these assessments.

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2 The Markit iTraxx Senior Financials Index is a composite of the 25 most liquid financial entities in Europe. The index is calculated through an averaging process by the Markit Group and is used as the benchmark level of CDS spreads on Capita Asset Services’ Credit List.
**Investment Limits**

9.20 As advised by Capita Asset Services, the Authority’s treasury advisors, the financial investment limits of banks and building societies are linked to their short and long-term ratings (Fitch or equivalent) as follows:

<table>
<thead>
<tr>
<th>Banks &amp; Building Societies</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitch AA+ and above</td>
<td>£20 million</td>
</tr>
<tr>
<td>Fitch AA/AA-</td>
<td>£15 million</td>
</tr>
<tr>
<td>Fitch A+/A</td>
<td>£15 million</td>
</tr>
<tr>
<td>Fitch A-</td>
<td>£10 million</td>
</tr>
<tr>
<td>Fitch BBB+</td>
<td>£10 million</td>
</tr>
</tbody>
</table>

The Authority will only utilise those institutions that have a short term rating of F2 or higher, (Fitch or equivalent).

<table>
<thead>
<tr>
<th>country name</th>
<th>limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Government (includes Debt Management Office)</td>
<td>£200 million</td>
</tr>
<tr>
<td>Other GM Wide bodies (Incl. Waste Disposal Authority)</td>
<td>Unlimited</td>
</tr>
<tr>
<td>Manchester City Council</td>
<td>£50 million</td>
</tr>
<tr>
<td>Other Local Authorities</td>
<td>£20 million</td>
</tr>
</tbody>
</table>

9.21 It may be prudent, depending on circumstances, to temporarily increase the limits shown above as in the current economic environment, it is increasingly difficult for officers to place funds. Moreover the transitional arrangements necessary for organisations transferring to the GMCA may require these limits to be reviewed. If this is the case officers will seek approval from the Treasurer for such an increase and approval may be granted at the Treasurer’s discretion. Any increase in the limits will be reported to Members as part of the normal treasury management reporting process.

**Country Limits**

9.22 The Authority has determined that it will only use approved counterparties from countries that meet the Authority’s criteria based on the creditworthiness policy described in paragraph 9.6. The list of countries that qualify using this credit criteria as at 4th January 2017 are shown below:

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- USA

9.23 Every country on this list is rated AAA by two or more of the three main rating agencies. This list will be added to, or deducted from should ratings change. The Council will only invest outside the UK with institutions of the highest credit rating AAA, who are therefore higher rated and less risky to utilise than the UK.

**Money Market Funds**

9.24 The removal of the implied levels of sovereign support that were built into ratings throughout the financial crisis has impact on bank and building society ratings across the world. Rating downgrades can limit the number of counterparties available to the
Authority. To provide flexibility for the investment of surplus funds the Authority will use Money Market Funds when appropriate as an alternative specified investment.

9.25 Money Market funds are investment instruments that invest in a variety of institutions, therefore diversifying the investment risk. The funds are managed by a Fund Manager and they have objectives to preserve capital, provide daily liquidity and a competitive yield. The majority of money market funds invest both inside and outside the UK.

9.26 Money Market funds are rated through a separate process to bank deposits. This looks at the average maturity of the underlying investments in the fund as well as the credit quality of those investments. It is proposed that the Authority will only use Money Market Funds where the institutions hold the highest AAA credit rating. Furthermore where the Money Market Funds invest outside the UK the countries concerned must be on the list of approved counterparties noted in paragraph 9.22.

**Treasury Bills**

9.27 These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is relatively low, although there is potential risk to value arising from an adverse movement in interest rates unless they are held to maturity.

9.28 Weekly tenders are held for Treasury Bills so the Authority could invest funds on a regular basis, based on projected cash flow information. This would provide a spread of maturity dates and reduce the volume of investments maturing at the same time.

9.29 There is a large secondary market for Treasury Bills so it is possible to trade them in earlier than the maturity date if required; and also purchase them in the secondary market. It is anticipated however that in the majority of cases the Authority will hold to maturity to avoid any potential capital loss from selling before maturity. The Authority will only sell the Treasury Bills early if it can demonstrate value for money in doing so.

**Certificates of Deposit**

9.30 These are short dated marketable securities issued by financial institutions, and as such counterparty risk is low. The instruments have flexible maturity dates, so it is possible to trade them in early if necessary, however there is a potential risk to capital if they are traded ahead of maturity and there is an adverse movement in interest rates. Certificates of Deposit are given the same priority as fixed deposits if a bank was to default. The Authority would only deal with Certificates of Deposit that are issued by banks which meet the credit criteria.

**Covered Bonds**

9.31 Covered Bonds are debt instruments secured by assets such as mortgage loans. They are issued by banks and other non-financial institutions. The loans remain on the issuing institutions Balance Sheet and investors have a preferential claim in the event of the issuing institution defaulting. All issuing institutions are required to hold sufficient assets to cover the claims of all covered bondholders. The Authority would only deal with bonds that are issued by banks which meet the credit criteria, or AAA rated institutions, (e.g. insurance companies).
Non-UK Banks/ Building societies

9.32 The Authority will only invest outside the UK with institutions of the highest credit rating AAA, who are therefore higher rated and less risky to utilise than the UK. The countries that qualify at 4th January 2017 are listed at paragraph 9.22.

Liquidity

9.33 Giving due consideration to the Authority’s level of balances over the next year, the need for liquidity, its spending commitments and provisioning for contingencies, it is considered very unlikely that the Authority will have cash balances to invest other than on a temporary basis. For this reason, no cash will be held on term deposit maturities in excess of 1 year.

Investment Strategy to be followed in-house

9.34 Capita’s view of forecast Bank Rate is at Section 8. The current economic outlook viewed by Capita is that the structure of market interest rates and government debt yields have several key treasury management implications:

- The Bank of England interpreted confidence indicators following the referendum vote for Brexit as anticipating a sharp slowdown in the UK economy. In 2016 the Monetary Policy Committee attempted to counter this expectation with a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals;

- Capita’s view is that Bank Rate will remain unchanged at 0.25% until a first increase to 0.50% in quarter 2, 2019 with a rise to 0.75% by March 2020. Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in August 2016, with huge volatility during 2016 as a whole. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling;

- Forecasting as far ahead as 2019 is difficult as there are many potential economic factors which could impact on the UK economy. There are also political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on forecasts;

- Investment returns are likely to remain relatively low during 2017/18 and beyond;

- In the Eurozone, the ECB commenced, in March 2015, its €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017;

- These measures have struggled to make a significant impact in boosting Eurozone economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Forward indications are that economic growth in the EU is likely to continue at moderate levels.

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.
9.35 The Authority will avoid locking into longer term deals while investment rates are at historically low levels, this is unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by the Authority.

9.36 For 2017/18 it is suggested that the Authority should budget for an investment return of 0.25% on investments placed during the financial year. For cash flow generated balances, the Authority will seek to utilise its business reserve accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of year Investment Report

9.37 At the end of the financial year, the Authority will receive a report on its investment activity as part of its Annual Treasury Report.

Policy on the use of External Service Providers

9.38 The Authority uses Capita Asset Services as external treasury management advisors and has access to another provider who is an approved supplier should a second opinion or additional work be required. The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

9.39 The Authority recognises there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. It will ensure the terms of the Advisor’s appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

Scheme of delegation

9.40 Appendix D describes the responsibilities of member groups and officers in relation to treasury management.

Role of the Section 73 Officer

9.41 Appendix E notes the definition of the role of the Treasurer in relation to treasury management.

10. MINIMUM REVENUE PROVISION (MRP) STRATEGY

10.1 Appendix B contains the Authority’s policy for spreading capital expenditure charges to revenue through the annual MRP charge, noting the change to the policy in relation to the use of capital receipts to mitigate the risk associated with grant repayment if conditions are not met.

11. RECOMMENDATIONS

11.1 Please see page 1 of the report for the list of recommendations.
### PRUDENTIAL INDICATORS

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Capital Expenditure</td>
<td>£244,269</td>
<td>£350,343</td>
<td>£285,964</td>
</tr>
<tr>
<td>2. Ratio of Gross Financing Costs to Net Revenue Stream</td>
<td>40%</td>
<td>42%</td>
<td>45%</td>
</tr>
<tr>
<td>3. Capital Financing Requirements as at 31 March</td>
<td>£1,187,301</td>
<td>£1,370,270</td>
<td>£1,489,270</td>
</tr>
<tr>
<td>4. Incremental impact of Capital Investments on Levy</td>
<td>-</td>
<td>-</td>
<td>3,522</td>
</tr>
<tr>
<td>5. Ratio of Gross Debt to Capital Financing Requirements</td>
<td>81%</td>
<td>84%</td>
<td>85%</td>
</tr>
</tbody>
</table>

### TREASURY INDICATORS

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Authorised Limit for External Debt</td>
<td>£1,322,892</td>
<td>£1,311,597</td>
<td>£1,296,795</td>
</tr>
<tr>
<td>Borrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>£1,322,892</td>
<td>£1,311,597</td>
<td>£1,296,795</td>
</tr>
<tr>
<td>7. Operational Boundary for External Debt</td>
<td>£1,077,142</td>
<td>£1,215,847</td>
<td>£1,294,795</td>
</tr>
<tr>
<td>Borrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>£1,077,142</td>
<td>£1,215,847</td>
<td>£1,294,795</td>
</tr>
<tr>
<td>8. Actual External Debt</td>
<td>£962,892</td>
<td>£1,151,597</td>
<td>£1,261,795</td>
</tr>
<tr>
<td>9. Upper Limit for Fixed Interest Rate Exposure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Borrowing re fixed rate borrowing as % of Total Net Borrowing</td>
<td>149%</td>
<td>138%</td>
<td>133%</td>
</tr>
<tr>
<td>10. Upper Limit for Variable Interest Rate Exposure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Borrowing re variable rate borrowing as % of Total Net Borrowing</td>
<td>8%</td>
<td>24%</td>
<td>32%</td>
</tr>
<tr>
<td>11. Upper Limit for Principal Sums Invested for over 364 days</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12. Maturity Structure of Fixed Rate borrowing during 2016-17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 12 months</td>
<td>30%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>40%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>35%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>5 years and within 10 years</td>
<td>40%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>10 years and above</td>
<td>90%</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Authority has adopted CIPFA’s Code of Practice for Treasury Management in the Public Services</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**GMCA Including Housing Investment Fund**

### PRUDENTIAL INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Capital Expenditure</td>
<td>£399,269</td>
<td>£510,343</td>
<td>£285,964</td>
</tr>
<tr>
<td>2 Ratio of Gross Financing Costs to Net Revenue Stream</td>
<td>40%</td>
<td>42%</td>
<td>45%</td>
</tr>
<tr>
<td>3 Capital Financing Requirements as at 31 March</td>
<td>£1,342,301</td>
<td>£1,685,270</td>
<td>£1,804,270</td>
</tr>
<tr>
<td>4 Incremental impact of Capital Investments on Levy</td>
<td>£0</td>
<td>£0</td>
<td>£3,522</td>
</tr>
<tr>
<td>5 Ratio of Gross Debt to Capital Financing Requirements</td>
<td>83%</td>
<td>87%</td>
<td>87%</td>
</tr>
</tbody>
</table>

### TREASURY INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Authorised Limit for External Debt</td>
<td>£1,477,892</td>
<td>£1,626,597</td>
<td>£1,611,795</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>£1,322,892</td>
<td>£1,311,597</td>
<td>£1,296,795</td>
</tr>
<tr>
<td>7 Operational Boundary for External Debt</td>
<td>£1,232,142</td>
<td>£1,530,847</td>
<td>£1,609,795</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>£1,077,142</td>
<td>£1,215,847</td>
<td>£1,294,795</td>
</tr>
<tr>
<td>8 Actual External Debt</td>
<td>£1,117,892</td>
<td>£1,466,597</td>
<td>£1,576,795</td>
</tr>
<tr>
<td>9 Upper Limit for Fixed Interest Rate Exposure</td>
<td>118%</td>
<td>99%</td>
<td>99%</td>
</tr>
<tr>
<td>Net Borrowing re fixed rate borrowing as % of Total Net Borrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Upper Limit for Variable Interest Rate Exposure</td>
<td>19%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>Net Borrowing re variable rate borrowing as % of Total Net Borrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Upper Limit for Principal Sums Invested for over 364 days</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12 Maturity Structure of Fixed Rate borrowing during 2016-17</td>
<td>Upper Limit</td>
<td>Lower Limit</td>
<td></td>
</tr>
<tr>
<td>Under 12 months</td>
<td>30%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>40%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>35%</td>
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<tr>
<td>5 years and within 10 years</td>
<td>40%</td>
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<tr>
<td>10 years and above</td>
<td>90%</td>
<td>55%</td>
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<tr>
<td>13 Authority has adopted CIPFA’s Code of Practice for Treasury Management in the Public Services</td>
<td>Yes</td>
<td></td>
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</tr>
</tbody>
</table>
# GM Fire

## PRUDENTIAL INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Capital Expenditure</strong></td>
<td>£10,987</td>
<td>£3,395</td>
<td>£3,255</td>
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<td><strong>2 Ratio of Gross Financing Costs to Net Revenue Stream</strong></td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
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<tr>
<td><strong>3 Capital Financing Requirements as at 31 March</strong></td>
<td>£31,115</td>
<td>£32,083</td>
<td>£33,756</td>
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<tr>
<td><strong>4 Incremental impact of Capital Investments on Levy</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>5 Incremental impact of Capital Investments on Council Tax (£.p)</strong></td>
<td>-</td>
<td>-</td>
<td>0.36</td>
</tr>
<tr>
<td><strong>6 Ratio of Gross Debt to Capital Financing Requirements</strong></td>
<td>26%</td>
<td>42%</td>
<td>43%</td>
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## TREASURY INDICATORS

<table>
<thead>
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<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
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<tr>
<td><strong>7 Authorised Limit for External Debt</strong></td>
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<td></td>
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<tr>
<td>Borrowing</td>
<td>£22,000</td>
<td>£29,000</td>
<td>£30,000</td>
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<tr>
<td>Other Long Term Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>£22,000</td>
<td>£29,000</td>
<td>£30,000</td>
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<tr>
<td><strong>8 Operational Boundary for External Debt</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowing</td>
<td>£17,000</td>
<td>£24,000</td>
<td>£25,000</td>
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<tr>
<td>Other Long Term Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>TOTAL</td>
<td>£17,000</td>
<td>£24,000</td>
<td>£25,000</td>
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<tr>
<td><strong>9 Actual External Debt</strong></td>
<td>£8,091</td>
<td>£13,605</td>
<td>£14,508</td>
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<tr>
<td><strong>10 Upper Limit for Fixed Interest Rate Exposure</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Net Borrowing re fixed rate borrowing as % of Total Net Borrowing</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>11 Upper Limit for Variable Interest Rate Exposure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Borrowing re variable rate borrowing as % of Total Net Borrowing</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
</tr>
<tr>
<td><strong>12 Upper Limit for Principal Sums Invested for over 364 days</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>13 Maturity Structure of Fixed Rate borrowing during 2017-18</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 12 months</td>
<td>100%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>20%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>20%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>5 years and within 10 years</td>
<td>20%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>10 years and above</td>
<td>100%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td><strong>Authority has adopted CIPFA’s Code of Practice for Treasury Management in the Public Services</strong></td>
<td>Yes</td>
<td></td>
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</tr>
<tr>
<td><strong>PRUDENTIAL INDICATORS</strong></td>
<td>2017-18</td>
<td>2018-19</td>
<td>2019-20</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------</td>
<td>---------</td>
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</tr>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>1 Capital Expenditure</td>
<td>50,683</td>
<td>20,051</td>
<td>15,516</td>
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<tr>
<td>2 Ratio of Gross Financing Costs to Net Revenue Stream</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
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<tr>
<td>3 Capital Financing Requirements as at 31 March</td>
<td>272,559</td>
<td>275,489</td>
<td>273,332</td>
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<tr>
<td>4 Incremental impact of Capital Investments on Levy</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Incremental impact of Capital Investments on Council Tax (£.p)</td>
<td>0.35</td>
<td>0.12</td>
<td>0.11</td>
</tr>
<tr>
<td>5 Ratio of Gross Debt to Capital Financing Requirements</td>
<td>42%</td>
<td>45%</td>
<td>48%</td>
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<table>
<thead>
<tr>
<th><strong>TREASURY INDICATORS</strong></th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>7 Authorised Limit for External Debt</td>
<td>144,825</td>
<td>154,220</td>
<td>160,388</td>
</tr>
<tr>
<td>Borrowing</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>144,825</td>
<td>154,220</td>
<td>160,388</td>
</tr>
<tr>
<td>8 Operational Boundary for External Debt</td>
<td>114,825</td>
<td>124,220</td>
<td>130,388</td>
</tr>
<tr>
<td>Borrowing</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>114,825</td>
<td>124,220</td>
<td>130,388</td>
</tr>
<tr>
<td>9 Actual External Debt</td>
<td>114,825</td>
<td>124,220</td>
<td>130,388</td>
</tr>
<tr>
<td>10 Upper Limit for Fixed Interest Rate Exposure</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net Borrowing re fixed rate borrowing as % of Total Net Borrowing</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>11 Upper Limit for Variable Interest Rate Exposure</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net Borrowing re variable rate borrowing as % of Total Net Borrowing</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>12 Upper Limit for Principal Sums Invested for over 364 days</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>13 Maturity Structure of Fixed Rate borrowing during 2017-18</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Under 12 months</td>
<td>50%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>50%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>50%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>5 years and within 10 years</td>
<td>50%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>10 years and above</td>
<td>100%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Authority has adopted CIPFA’s Code of Practice for Treasury Management in the Public Services</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

26
Definitions and Purpose of the Treasury Management noted in the table above (Indicators are as recommended by the CIPFA Prudential Code)

Authorised Limit - external debt
The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Authorised Limit.

Operational Boundary - external debt
The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Operational Boundary.

Both the Authorised Limit and the Operational Boundary need to be consistent with the authority’s plans for capital expenditure and financing; and with its treasury management policy statement and practices. The Operational Boundary should be based on the authority’s estimate of most likely, i.e. prudent, but not worst case scenario. Risk analysis and risk management strategies should be taken into account.

The Operational Boundary should equate to the maximum level of external debt projected by this estimate. Thus, the Operational Boundary links directly to the authority’s plans for capital expenditure; its estimates of capital financing requirement; and its estimate of cash flow requirements for the year for all purposes. The Operational Boundary is a key management tool for in-year monitoring.

It will probably not be significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would be significant and should lead to further investigation and action as appropriate. Thus, both the Operational Boundary and the Authorised Limit will be based on the authority’s plans. The authority will need to assure itself that these plans are affordable and prudent. The Authorised Limit will in addition need to provide headroom over and above the Operational Boundary sufficient for example for unusual cash movements.

Actual external debt
After the year end, the closing balance for actual gross borrowing plus (separately), other long-term liabilities is obtained directly from the local authority’s Balance Sheet. This prudential indicator is referred to as Actual External Debt.

The prudential indicator for Actual External Debt considers a single point in time and hence is only directly comparable to the Authorised Limit and Operational Boundary at that point in time. Actual debt during the year can be compared.

Upper limit for total principal sums invested for over 364 days
The authority will set an upper limit for each forward financial year period for the maturing of investments made for a period longer than 364 days. This indicator is referred to as the prudential limit for Principal Sums Invested for periods longer than 364 days.
The purpose of this indicator is so the authority can contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested.

**Upper limit for fixed interest rate exposure**

The authority will set for the forthcoming financial year and the following two financial years upper limits to its exposures to the effects of changes in interest rates. These indicators will relate to both fixed and variable interest rates. They may relate to either the authority’s net interest on, or to its net principal sum outstanding on its borrowing/investments.

**Upper limit for variable interest rate exposure**

This indicator is as described and calculated above for Fixed Interest Rate Exposures, but substitutes ‘variable rates’ for ‘fixed rates’.

**Maturity structure of new fixed rate borrowing**

The authority will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. These indicators are referred to as the Upper and Lower limits respectively for the Maturity Structure of Borrowing.

**Has the Authority adopted the CIPFA Treasury Management Code?**

This prudential indicator in respect of treasury management is to confirm that the local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, and a recognition of the preexisting structure of the authority’s borrowing and investment portfolios.
Appendix B

Minimum Revenue Policy Strategy

The Authority is required to make provision for repayment of an element of the accumulate capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

CLG regulations have been issued, which require the full Authority to approve an annual MRP statement. This will need to be approved in advance of each year. Whilst the regulations revoke current MRP requirements, authorities are allowed to replace the existing regulations, so long as there is a prudent provision.

Based on the regulations, the Authority is recommended to approve the following MRP statement for application in 2017-18 and future years:

- For capital expenditure incurred on non Metrolink and non Transport Delivery Programme schemes including GM Fire assets (except fire vehicles and equipment) and debt incurred by the former Police Authority, MRP will continue to be calculated at 4% of the previous year end’s Capital Adjustment Account, using the former CLG regulations 28 and 29.
- For capital expenditure incurred on the Metrolink and Transport Delivery Programme schemes, MRP will be calculated on an annuity basis and deferred until the year after the asset has been commissioned into use.
- For capital expenditure incurred by the former Police Authority or Police and Crime Commissioner on or after 1st April 2008, MRP will be calculated using the Asset Life (Equal Instalment) Method and will be Charged over a period reasonably commensurate with the estimated useful life of the asset acquired.
- For capital expenditure incurred on GM Fire Vehicles and Equipment the depreciation method of calculating the repayment method shall be employed.
- For Fire PFI assets the asset life annuity model shall be employed.
- For borrowing in lieu of capital receipts it has been concluded that provision is not necessary as the capital receipt when received will be applied to repay debt.
- If capital receipts have been used to repay borrowing during the year then the value of the MRP which would otherwise have been set aside will be reduced by the amounts which have instead been repaid using capital receipts.
- If the conditions of a capital grant state that it can be used in the same way as a capital receipt the Authority may choose to use these capital grants to repay borrowing and therefore reduce the value of MRP.
- The Treasurer has the discretion to make additional voluntary provision for debt.

The new regulation provides that the MRP Statement can be revised by the Authority at any stage. It is possible that such a revision will be necessary once the detailed funding of Metrolink 3a and the Transport Delivery Programme has been finalised. Also the opportunity may be taken to rationalise the policies previously adopted for Police and Crime Commissioner and GM Fire debt.
With regards to the use of capital receipts the right to use capital receipts to repay borrowing is given in the Capital Finance and Accounting Regulations (para 23). The Authority proposes that each year it may apply a portion of capital receipts to redeem debt. It will calculate the amount that it considers to be a prudent overall provision for the repayment of debt, and it will fund this repayment partly from revenue and partly from capital receipts. Since this approach would not reduce the overall amount of funding being set aside to redeem debt, the Authority is satisfied that this would result in a prudent MRP provision.

It is envisaged that in normal circumstances capital grants which are useable for the same purposes as capital receipts might be used to repay debt in so far as they might otherwise have to be repaid to central government.
Treasury Management Policy Statement

1. This organisation defines its treasury management activities as:
The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Authority will invest its monies prudently, considering security first, liquidity second, and yield last, carefully considering its investment counterparties. It will similarly borrow monies prudently and consistent with the Authority’s service objectives.
Treasury Management Scheme of Delegation

i  **Full Authority**
   • receiving and reviewing reports on treasury management policies, practices and activities
   • approval of annual strategy

ii  **Responsible body** – Audit Committee
   • approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices
   • budget consideration and approval
   • approval of the division of responsibilities
   • receiving and reviewing regular monitoring reports and acting on recommendations
   • approving the selection of external service providers and agreeing terms of appointment

iii  **Body with responsibility for scrutiny** - Audit Committee
   • reviewing the treasury management policy and procedures and making recommendations to the responsible body

iv  **Treasurer**
   • delivery of the function
   • reviewing the treasury management policy and procedures and making recommendations to the responsible body.
The treasury management role of the Section 73 officer

The S73 (responsible) Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.
Economic Background as at January 2017 – Capita Treasury Solutions Limited

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government’s continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee, (MPC), meeting of 4th August was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2, 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3, i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have
very much stayed in a ‘business as usual’ mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

**Bank of England GDP forecasts** in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

**Capital Economics’ GDP forecasts** are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

**The Chancellor** has said he will do ‘whatever is needed’ i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority.

The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools.

The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative Cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the Dollar, and 8% down against the Euro (as at the MPC meeting date – 15.12.16).

This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.
What is clear is that consumer disposable income will come under pressure, as the latest employers’ survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

**Gilt yields, and consequently PWLB rates**, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC’s new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

**Employment** had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. House prices have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

**USA.** The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth.

The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%.

Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump’s election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.
Trump’s election has had a profound effect on the bond market and bond yields rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office.

However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

**EZ.** In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn.

These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.
There are also significant specific political and other risks within the EZ:

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.

- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.

- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth and a very high debt to GDP ratio of 135%.

These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
• **French presidential election;** first round 13 April; second round 7 May 2017.

• **French National Assembly election June 2017.**

• **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.

• The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

**Asia.** Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated.

This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

**Emerging countries.** There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets.

While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the Dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017, a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from
the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

**Brexit timetable and process**

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50.

- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members, view - not that likely.

- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.

- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.

- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.

- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.

- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU’s budget, voting allocations and policies.

- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.
Prospects for Interest Rates

The data below shows a variety of forecasts published by a number of institutions. They include those of Capita and Capital Economics (an independent forecasting consultancy). The forecast within this strategy statement has been drawn from these diverse sources and officers’ own views. Please Note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

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Bank Rate

| Capita Asset Services | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.50% | 0.75% | 0.75% |
| Capital Economics     | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.50% | 0.50% |

5yr PWLB Rate

| Capita Asset Services | 1.60% | 1.60% | 1.60% | 1.60% | 1.70% | 1.70% | 1.70% | 1.80% | 1.80% | 1.90% | 1.90% | 2.00% | 2.00% |
| Capital Economics     | 1.60% | 1.70% | 1.90% | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% | 2.50% | 2.70% | 2.80% | 2.90% | 3.00% |

10yr PWLB Rate

| Capita Asset Services | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% |
| Capital Economics     | 2.40% | 2.40% | 2.50% | 2.60% | 2.60% | 2.70% | 2.70% | 2.80% | 2.90% | 3.10% | 3.20% | 3.30% | 3.40% |

25yr PWLB Rate

| Capita Asset Services | 2.90% | 2.90% | 2.90% | 3.00% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% |
| Capital Economics     | 2.95% | 3.05% | 3.05% | 3.15% | 3.25% | 3.25% | 3.35% | 3.45% | 3.55% | 3.65% | 3.75% | 3.95% | 4.05% |

50yr PWLB Rate

| Capita Asset Services | 2.70% | 2.70% | 2.70% | 2.80% | 2.80% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% |
| Capital Economics     | 2.80% | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.40% | 3.60% | 3.70% | 3.80% | 3.90% |
Glossary of Terms

**Authorised Limit** - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

**Bank Rate** - The rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

**Certificate of Deposits** - Short dated marketable securities issued by financial institutions, and as such counterparty risk is low.

**Counterparty** - One of the opposing parties involved in a borrowing or investment transaction.

**Covered Bonds** - Debt instruments secured by assets such as mortgage loans. These loans remain on the issuer’s balance sheet and investors have a preferential claim in the event of the issuing institution defaulting.

**Credit Rating** - A qualified assessment and formal evaluation of an institution’s (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

**Discount** - Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

**Fixed Rate Funding** - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

**Gilts** - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

**High/Low Coupon** - High/Low interest rate.

**LIBID (London Interbank Bid Rate)** - This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

**LIBOR (London Interbank Offer Rate)** - This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed...
from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

**Liquidity** - The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

**LOBO (Lender Option Borrower Option)** - This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

**Market** - The private sector institutions - Banks, Building Societies etc.

**Maturity Profile/Structure** - An illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Authority vulnerable to current interest rates in that year.

**Monetary Policy Committee** - The independent body that determines Bank Rate.

**Money Market Funds** - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

**Operational Boundary** - This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

**Premium** - Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

**Prudential Code** - The Local Government Act 2003 requires the Authority to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

**PWLB** - Public Works Loan Board. Part of the Government’s Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

**Specified Investments** - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

**Non-specified investments** - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

**Treasury Bills** - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.
Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.
GMCA Audit Committee

Date: 19 April 2017
Subject: Annual Assurance Opinion and Outturn Report
Report Of: Treasurer to the Greater Manchester Combined Authority and the Head of Audit and Risk Management

PURPOSE OF THE REPORT
This report provides Members with the Head of Internal Audit and Risk Management’s annual opinion on the authority’s systems of governance, risk management and internal control.

RECOMMENDATION
Members are requested to consider and comment on the Head of Internal Audit and Risk Management’s annual assurance opinion for 2016/17.

PRIORITY
This report is produced in conformance with the Public Sector Internal Audit Standards (PSIAS) requirement for the Head of Audit and Risk Management (“Chief Audit Executive”) to report to officers and the Audit Committee (“the Board”) to help inform their opinions on the effectiveness of the framework of governance, risk and controls in operation within the Authority.

BACKGROUND DOCUMENTS
Report presented to Audit Committee: Internal Audit Plan 2016/17
Quarterly Internal Audit Progress Update Reports

CONTACT OFFICERS:
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E-mail richard.paver@manchester.gov.uk

Tom Powell, Head of Audit & Risk Management - 0161 234 5273
E-mail t.powell@manchester.gov.uk
### RISKS/IMPLICATIONS

**Financial:** Cost of Internal Audit Services within GMCA budget.

**Staffing:** No impact

**Policy:** No impact

**Equal Opportunities – Has a Diversity Impact Assessment been conducted?** No

### TRACKING/PROCESS

| Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board? | No |

### EXEMPTION FROM CALL IN

| Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency? | No |

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1 **Background**

1.1 This report provides the Head of Internal Audit and Risk Management’s overall assurance opinion on the adequacy and effectiveness of Greater Manchester Combined Authority’s (GMCA) internal control arrangements for 2016-17. The report complies with the Public Sector Internal Audit Standards (PSIAS), highlighting any matters that are of concern or that require further consideration or additional assurance activity.

1.2 The report includes the outturn position for audit work undertaken during 2016-17, including assurance opinions given and summary of conclusions. These are reported alongside the GMCA Treasurer’s review of effectiveness of Internal Audit to inform the GMCA annual governance statement (AGS).

2 **Internal Audit Function**

2.1 Manchester City Council’s Internal Audit and Risk Management Division currently delivers the Internal Audit, Risk Management and Insurance service for the GMCA under a service level agreement. The Head of Internal Audit and Risk Management reports directly to the GMCA Treasurer and presents the annual GMCA audit plan and quarterly reports to the GMCA Audit Committee.

2.2 Internal Auditing by definition, is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

3 **Head of Internal Audit Assurance Opinion**

3.1 Overall the Head of Internal Audit and Risk Management can provide a substantial assurance opinion on the overall systems of internal control being operated and the developing governance, risk and control framework for GMCA.

3.2 Whilst no major control issues were identified during the year, there remain significant risks associated with the transition process as the GMCA moves toward the establishment of a new constitution, devolution of powers and integrated staffing structures beyond April/May 2017. Significant progress has been made within the four elements of transition planning: Finance; HR; ICT; and Legal and is ongoing. Substantial work has been undertaken to mitigate risks in these areas and each of the work streams and Transition Board continue to demonstrate a positive direction of travel as the GMCA moves beyond initial ‘go live’ stage on 1 April for other entities transferring into GMCA and planned ‘go live’ date of 8 May 2017 for OPCC and GMFRS.

3.3 There remain a number of key challenges that were identified during the early stages of transition and in preparing for ‘go live’ and beyond. The size, complexity and scale of work required and the level of resources required has meant a more pragmatic approach being adopted with a ‘softer’ and phased approach to transition. More work is required to develop key requirements around premises, ICT, finance and people and this will continue over the next 12–18 months.
3.4 A significant amount of work is still required to develop and implement an appropriate and effective governance and control framework for 2017/18 and beyond following the devolution of powers, changes to legal powers and election of the GM Mayor and to ensure an adequate infrastructure is in place to support the new GMCA integrated structure, including systems, policies, processes and ways of working.

3.5 This annual assurance opinion is based on audit activity conducted during 2016/17 and informed by other sources of assurance provided in year, including external audit.

4 Audit Activity and Assurances 2016-17 Outturn

4.1 The annual internal audit plan was presented to and approved by Audit Committee in April 2016. The plan outlined 194 days of audit assurance activity for 2016/17. Actual time charged amounted to 131 days on specific audits as some planned work was deferred to 2017/18 although additional, non-chargeable time has been spent by the Service supporting the development of general transition arrangements.

4.2 We have provided Members with quarterly assurance progress update reports during the year against the plan including the reporting of any significant controls or assurance issues identified.

4.3 Details of all audit activity carried out during the year including a summary of assurance opinions given and respective assurance levels are shown below and in the table attached at appendix 1. Descriptions of the basis for opinions is also attached at appendix 2.

5 Assurance Opinions 2016/17

5.1 GMCA Transition Governance and Programme Delivery: Internal Audit continued to remain engaged with the transition working group, senior officers and functional work stream leads to understand the progress against key priorities and risks relating to the transition programme. We provided a moderate assurance opinion to Audit Committee in October 2016 and January 2017 over transitional arrangements in the four key areas of governance, finance, HR and ICT.

5.2 Several officer reports were provided to GMCA Leaders in the months leading up to transition to provide a progress update on the programme and explanation of the principles being used to support decisions taken over the development of a single integrated staffing structure, the process for transfer of staff and budgets and funding required to support transition.

5.3 The Transition Board was well attended with representatives from each of the functional areas. The membership has been expanded during the year and now includes senior representatives from across the GMCA, GMFRS, GMPCC, New Economy and Manchester City Council who are impacted by change. Regular meetings of the Board have taken place to oversee progress with work stream highlight reports and verbal updates from work stream leads providing assurance over priority areas. These provided a useful benchmark for understanding key activities, assessing progress and decision making.
5.4 In October we raised concerns over a lack of robust programme and project management capacity to support the efficient delivery of the overall transition programme, including work stream deliverables and key project milestones, interdependencies and slippage. A recommendation was made that arrangements should be further strengthened, including resourcing and technical capacity to deliver in these areas. Additional capacity was secured to support transition, both through agreement secondments and the appointment of specialist staff, as well as through the support of colleagues from GMFRS and Transport for Greater Manchester. In addition, capacity, structure and resource requirements have been a regular focus at the transition project board which was expanded to include senior officers from New Economy, GMFRS, GM Police and Crime Commissioners Office. Nonetheless, even with this additional capacity, the scale of change means that integration and development activity will continue throughout 2017/18.

5.5 A key priority was to ensure adequate infrastructure was in place to support integration and the move to Churchgate House. Extensive work was required to ensure the key requirements around premises, ICT and finance were fully understood and progress made in line with proposed timescales. This work is currently ongoing and is scheduled for completion in April.

5.6 **GMCA Risk Management Framework and Corporate Risk Register**: The GMCA corporate risk register was reviewed quarterly by the risk management group and reported to Audit Committee. It was agreed in January 2017 that further development of the risk management framework and assurance reporting arrangements were required to ensure that a clear link between strategic risks on the corporate risk register and consideration of wider GMCA operational risks from functional activities. Internal Audit will facilitate a workshop with Senior Officers to in April to explore these requirements further and ensure that the new framework meets the responsibilities of the new integrated structure. This is an area for focus in 2017/18 and capacity to support the further development of a GMCA risk and assurance framework is reflected in the emergent 2017/18 Internal Audit Plan.

5.7 **Counter Fraud Strategy and Policy Framework for GMCA**: A report was presented to GMCA Standards Committee in November 2016 which outlined the requirement to further develop the counter fraud strategy and overall approach for the GMCA to protect against fraud and loss of public funds. It was agreed to defer any further work until 2017/18 in order to assess the existing anti-fraud arrangements across GMFRS, New Economy, GMPCC and TfGM as part of the transition programme. Planning activity to consolidate and coordinate policy and procedure arrangements is underway and time for completion is reflected in the emergent 2017/18 Internal Audit Plan.

5.8 There were no whistleblowing, counter fraud or irregularity cases referred to Internal Audit in the year and no specific issues of concern in respect of the explore of the Authority to fraud or wrongdoing.

*Finance and Operations*

5.9 **GMCA Core Financial System Interim Position Statement**: Our interim report published in December 2016 provided a moderate assurance opinion that a functional financial system and payroll solution would be delivered and operational by 1 April 2017. A significant amount of work had taken place to review existing financial systems in use by all entities consolidating into the GMCA in 2017 and a
decision taken to upgrade to a new version of the existing GMFRS application as the overall financial system for the GMCA. Our report reflected that successful implementation and configuration of the new financial system was largely dependent on the availability and use of existing ICT resources employed within GMFRS and the potential for competing priorities was a risk. There was a need to firm up a detailed design of the deliverables by the ‘go live’ date as part of phase1 implementation.

5.10 Given the narrowing timeline, our recommendations focussed on the role of the Transition Board and Finance Workstream to provide greater capacity and scrutiny over programme and project management deliverables and ensuring that sufficient technical capacity was made available to support implementation.

5.11 New payroll processing arrangements for GMCA staff were completed successfully in February and in addition, we have recently started further assurance work around user acceptance testing on the finance and payroll systems to assess the approach pre and post ‘go live’ stages. Positive assurances have been received from the implementation team over ‘go live’ readiness and the team were not anticipating any significant difficulties.

5.12 **GMCA Procurement and Payments:** Overall we provided *moderate* assurance over the adequacy and effectiveness of existing systems and controls for procurement and commissioning activity and the process for managing and making payments. The capacity for improvement was high given the transition programme and ongoing project activity including replacement financial systems, revised governance, structures and ways of working. Our main area for concern related to a lack of assurance over wider GMCA procurement and commissioning activity undertaken by GM Districts / TfGM which accounted for the majority of funding passported through the GMCA but where assurance over the procurement processes resides with GM Districts / TfGM.

5.13 Similar issues have been noted in an audit report in respect of **GMCA Grant Funded Programmes / Projects.** Whilst we have positively certified all grant claims received in the year, we considered there was a need to strengthen and simplify the overall assurance arrangements across grant funded programmes. GMCA, TfGM and GM Council internal audit teams are all involved in certification work and we could only provide *limited* assurance over the efficiency and effectiveness of programmes / projects under the current assurance and reporting arrangements. We have recommended that a clearer framework of assurance be further developed that meets the respective needs of the GMCA and other bodies as part of the new GMCA arrangements in 2017. Proposals are being developed in discussion with Central Government Departments with the aim of agreeing a consistent approach to programme and grant assurance arrangements so that the GMCA can apply a single, robust set of principles and procedures across a range of grant funded programmes. Internal Audit will continue to monitor and support these developments in 2017/18.

5.14 **GMCA Investment Funds Repayment and Monitoring:** We provided *substantial* assurance over the repayment and recycling of GM Investment Fund loans and reporting arrangements in place. Further development was required to support full integration of the new system (Logotech) which will support the operational delivery and management of all loan activity for the GMCA.
5.15 **GM Strategy Performance Management Framework** – As reported in April 2016, an updated framework has been developed based on GM’s priorities, which is flexible enough to reflect the strategic developments that have taken place since the strategy was published. It builds on existing performance reporting arrangements to avoid creating additional bureaucracy, to provide an accessible overview of activity across the Strategy.

*Employment and Skills*

5.16 **Employment and Skills**: We issued a final report in June following our review of the governance and financial arrangements in place for the use of GMCA revenue funding linked to Employment and Skills initiatives. We provided a substantial assurance opinion over the controls in place to manage funding received in relation to the City Deal, Youth Contract and Apprenticeship Grant for Employers. The audit plan had proposed further assurance work around capital expenditure to be conducted later in the year, however, following discussions with New Economy this was deferred to 2017/18 as delays in the distribution of funding due to Area Based Reviews, meant there was only one live contract in existence for review.

5.17 In addition, Internal Audit has agreed with New Economy to undertake a review of systems and controls over the GM Working Well Programme commencing in April 2017 as it is intended that the GMCA will become the accountable body for this funding and management are seeking independent assurance that adequate governance exists over programme delivery.

*Grant Certifications*

5.18 Grant certification work was completed with relevant certifications being forwarded to funding bodies in line with specified deadlines. We provided assurance that grant funding received had been used in accordance with funding conditions. The amount of mandatory grant certification work is likely to increase during 2017/18 as the GMCA becomes the accountable body for more funding programmes.

*Other GM / AGMA Work*

5.19 Audits have been completed in two other areas that relate to GMCA priorities. These are not being formally delivered as part of the GMCA but do relate to GM / AGMA activity so were included in the audit plan for 2016/17.

5.20 **GM Connect Information and Data Governance**: We concluded our initial audit work to provide an early assessment of the developing governance arrangements for the delivery of the GM-Connect programme and provided a moderate assurance opinion. This programme was in the early stages of delivery, and we were satisfied that roles and responsibilities had been clearly and appropriately assigned and delegated. However, delivery plans and performance measures were still at a high level and required further work and specification to support the effective scrutiny of progress. Further work in this area is planned for 2017/18.

5.21 **GM Public Service Reform (PSR) Governance Framework**: We provided moderate assurance over the nature and effectiveness of overarching PSR governance. An appropriate decision making and accountability structure was in place and operating effectively, and had been subject to periodic review and revision. Overall performance and risk management arrangements were logical and proportionate and were supported by effective monitoring and reporting. However,
we proposed some changes to PSR level performance and risk management arrangements with a view to improving reporting at a Board level.

Wider Assurances

5.22 We met with the Heads of Internal Audit from Manchester Growth Company and TfGM to discuss audit assurance coverage. There were no particular issues of concern that we were made aware of over the operation of their systems of governance, risk and control arising in the year to date.

5.23 Engagement with Heads of Audit at GM level as well as senior GMFRS and OPCC colleagues has taken place to explore risks on transition as well as opportunities for the future structure, resourcing and capacity of GMCA Internal Audit beyond April 2017. The outline approach to internal audit is explained in the emergent Internal Audit Plan for 2017/18 being presented to Audit Committee for comment and approval.

6 Recommendations

6.1 Members are requested to consider and note the Internal Audit Annual Opinion and Report for 2016/17.
### Appendix 1: Table of Audit Opinions and Status 2016-17

<table>
<thead>
<tr>
<th>Audit Area</th>
<th>Priority</th>
<th>Planned Days</th>
<th>Audit Status</th>
<th>Assurance Opinion</th>
<th>Capacity to Improve</th>
</tr>
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<tbody>
<tr>
<td><strong>2016/17 Planned Audit Work</strong></td>
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<td></td>
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<td></td>
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<tr>
<td><strong>Finance</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>GMCA - Procurement and Payments</td>
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<td>6</td>
<td>Final Report Issued</td>
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<td>High</td>
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<td>GMCA Core Financial Systems – Interim Position Statement</td>
<td>M</td>
<td>5</td>
<td>Final Report Issued</td>
<td>Moderate</td>
<td>High</td>
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<tr>
<td>Core Financial Systems – Systems Testing</td>
<td>H</td>
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<td>Fieldwork</td>
<td>Set at Draft</td>
<td>Set at Final</td>
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<td><strong>Grant Certification</strong></td>
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<td>Fieldwork</td>
<td></td>
<td></td>
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<tr>
<td>Growth Deal Grant Certification</td>
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<td>Certification Completed</td>
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<td>Certification Completed</td>
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<td>Clean Bus Technology Grant</td>
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<td>Earn Back - TfGM</td>
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<td>Skills and Employment 1</td>
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<td>GM Strategy – Performance Management Framework</td>
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<td>Skills and Employment 2</td>
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<td>14</td>
<td>Capital Payments Deferred to 2017/18</td>
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<tr>
<td>Housing and Planning</td>
<td>H</td>
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<td>50% of time applied to GMHIF with remainder deferred to 2017/18.</td>
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<td>GMHIF S151 Sign Off</td>
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<td>8</td>
<td>Final</td>
<td>Substantial</td>
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<td>Public Service Reform</td>
<td>M</td>
<td>12</td>
<td>Draft Report</td>
<td>Moderate</td>
<td>Set at Final</td>
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<tr>
<td>Audit Area</td>
<td>Priority</td>
<td>Planned Days</td>
<td>Audit Status</td>
<td>Assurance Opinion</td>
<td>Capacity to Improve</td>
</tr>
<tr>
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<td>--------------</td>
<td>--------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>GMCA Investment Funds - Loans and Monitoring</td>
<td>H</td>
<td>15</td>
<td>Final</td>
<td>Substantial</td>
<td>N/A</td>
</tr>
<tr>
<td>Business Support</td>
<td>H</td>
<td>3</td>
<td>Liaison with MGC audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>H</td>
<td>4</td>
<td>Liaison with TFGM audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>GM Connect - Information and Data Governance</td>
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<td>Final</td>
<td>Moderate</td>
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<td>Risk Assurance / AGS</td>
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<td>Ongoing compilation of risk register and contribution to Annual Governance Statement in April 2017</td>
<td></td>
<td></td>
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<tr>
<td>GMCA Anti- Fraud Strategy and Policy development</td>
<td>H</td>
<td>5</td>
<td>Report to GMCA Standards Committee – further work required 2017/18</td>
<td></td>
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<tr>
<td>Transition Governance and Programme Delivery</td>
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<td>40</td>
<td>Opinion provided in Audit Committee Reports</td>
<td>Moderate</td>
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<td>Grant Funded Programme and Projects – Risk and Assurance</td>
<td>New work</td>
<td></td>
<td>Final</td>
<td>Limited</td>
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</tbody>
</table>
### Appendix 2: Basis of Audit Opinions

<table>
<thead>
<tr>
<th>Level of assurance</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full</td>
<td>There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.</td>
</tr>
<tr>
<td>Substantial</td>
<td>Whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system’s overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment,</td>
</tr>
<tr>
<td>Moderate</td>
<td>There are some areas for improvement in the system of internal control, which may put system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.</td>
</tr>
<tr>
<td>Limited</td>
<td>There are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.</td>
</tr>
<tr>
<td>No</td>
<td>An absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.</td>
</tr>
</tbody>
</table>
GMCA Audit Committee

Date: 19 April 2017
Subject: Emergent Internal Audit Annual Plan 2017/18
Report Of Treasurer to the Greater Manchester Combined Authority and the Head of Audit and Risk Management

PURPOSE OF REPORT

The Public Sector Internal Audit Standards (PSIAS) state that a risk-based plan of Internal Audit activity should be prepared to support an annual opinion on the effectiveness of the Authority’s systems of governance, risk management and internal control. The PSIAS emphasises the need for a strong working relationship between Internal Audit and the Audit Committee which should include arrangements for Audit Committee to “review and assess the annual internal audit work plan”.

RECOMMENDATION

Members are requested to comment on the proposed direction and process for development of the Internal Audit Plan.

PRIORITY

This report is produced in compliance with the PSIAS requirements to submit an annual plan of internal audit activity to Audit Committee.

BACKGROUND DOCUMENTS

Internal Audit Strategy 2013-2016
Internal Audit Plan 2016/17
Greater Manchester Strategy and Greater Manchester Growth and Reform Plan

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E-mail richard.paver@manchester.gov.uk

Tom Powell, Head of Audit & Risk Management - 0161 234 5273
E-mail t.powell@manchester.gov.uk
### RISKS/IMPLICATIONS

**Financial:** Cost of Internal Audit Services within GMCA budget.

**Staffing:** No impact

**Policy:** No impact

**Equal Opportunities – Has a Diversity Impact Assessment been conducted?** No

### TRACKING/PROCESS

| Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board | No |

### EXEMPTION FROM CALL IN

| Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency? | No |

<table>
<thead>
<tr>
<th>AGMA Commission</th>
<th>TfGMc</th>
<th>Scrutiny Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
1 Background to the Report

1.1 The purpose of this report is to advise Audit Committee of the development of the 2017/18 Internal Audit Annual Plan for the GM Combined Authority (the Authority) to facilitate Member input to the planning process by reporting on the approach, key characteristics and proposed audits. The Public Sector Internal Audit Standards (PSIAS) include the development of the annual plan which should:

- Outline the audit areas for focus in the year;
- Their respective priorities and estimated resource requirements; and
- Differentiate between audit and other work.

1.2 This is an emergent plan, pending the transfer of Greater Manchester Fire and Rescue Service (“GMFRS”) and the Greater Manchester Police and Crime Commissioner’s Office functions (“GMPCC”) to the GMCA and GM Mayor from 8 May 2017. As such the emergent plan does not reflect the audit work proposed for GMP and GMFRS functions, which in 2016/17 was approximately 700 days.

1.3 After 8 May, an updated plan including audit activity in respect of GMP and GMFRS will be provided to the next meeting of the Audit Committee.

2 Strategic Context

2.1 The key strategic context for the Authority in 2017/18 is the transition to new powers and duties arising from legislative change and the consolidation of New Economy, GMFRS and GMPCC functions from 8 May 2017. The transition to these new arrangements has been undertaken throughout 2016/17 and will continue through 2017/18.

2.2 To 8 May the GMCA will continue to have powers and duties in the following areas: Transport; Economic Development and Regeneration; Planning and Housing; Worklessness and Skills; Business Support and Investment; and Reform. From 8 May these powers and duties will be extended alongside the powers and duties of the Greater Manchester Mayor to include fire and rescue and the functions of the current GM Police and Crime Commissioner. The Authority also has a role supporting and working with the Local Enterprise Partnership (LEP) and other key partners, including NHS bodies, in the development and delivery of the Greater Manchester Strategy and the Growth and Reform Plan.

2.3 Transition and the consolidation of functions has resulted in major change including staff transferring to the GMCA, new office accommodation, changes in ICT, changes in roles, responsibilities, policies and procedures and new governance arrangements. This change is ongoing and will continue post-election of the GM Mayor.

2.4 This scale of ongoing change throughout the year means that from an Internal Audit perspective there is a need for a flexible approach to audit planning and assurance work. There will be a need for assurance over key aspects of transition as well as assurance over core strategies, systems and processes and the GMCA systems of governance, risk management and control. There will also be a more flexible approach to resourcing of the audit service for 2017/18 as set out below.
3 Role of Internal Audit

3.1 Proper internal audit practices are recognised as those in the PSIAS. Manchester City Council has delivered the Authority’s internal audit service in compliance with the PSIAS, providing an independent opinion on the adequacy and effectiveness of systems of governance, risk management and internal control, based on an annual programme of audit, assurance and advice work. The Authority’s Constitution delegates responsibility for the internal audit function to the Treasurer. The Head of Audit and Risk Management agrees the annual audit plan with, and reports to, the Treasurer and Audit Committee. Internal Audit also act to investigate reported financial or other irregularity, advising and supporting managers and advising on the prevention and detection of fraud and corruption. Internal Audit’s Charter complies with the PSIAS and sets out its authority, role, responsibilities and relationships.

3.2 From 8 May 2017 the GMCA Head of Audit and Risk Management will be responsible to the GMCA Treasurer and Audit Committee for providing assurance over the governance, risk management and internal control functions of the GMCA and the current GMPCC and GMFRS.

3.3 The Internal Audit Service for the GMCA will continue to be provided by the Head of Audit and Risk Management and Lead Auditor from Manchester City Council but Internal Audit staff from the Office of the GM Police and Crime Commissioner (GMPCC) will transfer to the GMCA on 8 May and will lead the provision of audit services to the Chief Constable and GMP Audit Committee. The GMCA and police audit teams will each report to the GMCA Head of Audit and Risk Management. Additional specialist resources in respect of the audit of financial systems and development of counter fraud arrangements will be provided by Manchester City Council and additional, external resources will be secured to support the delivery of the audit plan and the development of risk management and assurance frameworks across the new GMCA.

3.4 The Head of Audit and Risk Management will continue to meet regularly with the Chief Audit Executives of the Greater Manchester Councils. This focus facilitates the sharing of issues and assurances arising from GMCA audit work and helps ensure the coordination any relevant assurance activity that districts are undertaking in relation to GMCA priorities, themes or functions.

4 Annual Plan Approach

4.1 As in previous years the plan is designed to be flexible, supportive, prioritised and timely and these characteristics are endorsed in the PSIAS. This approach will be critical for 2017/18 so that the Internal Audit Service can provide assurance, advice, guidance and support during a period of transition and substantial change.

4.2 At this stage, the plan does not include specific activities in respect of GMP or GMFRS. The respective Audit Committees of these authorities will consider and approve emergent internal audit plans for 2017/18 which will be re-presented to the GMCA Audit Committee for comment at the next Audit Committee.

4.3 Planning for the emergent GMCA internal audit plan has been informed by:

- Transition plans and transition risk registers
- Draft Annual Governance Statement 2016/17
- Business plans and GMCA priorities.
• Budgets and financial plans.
• GMCA risk register
• Reports to the GMCA and Committees, including external audit reports
• Engagement with relevant officers
• Engagement with TfGM, GMPCC and GMFRS Heads of Internal Audit
• Cumulative audit knowledge and experience

4.4 The approach for 2017/18 will include phases of support and assurance to reflect the needs of the Authority with the outline emergent plan of activity as follows:

**Quarter One-Two (April-August):**

- Assurance over the consolidation of financial strategies, systems, processes and procedures, including the general ledger and payroll systems.
- Assurance over the consolidation of HR strategies, systems, processes and procedures.
- Assurance over financial systems data migration.
- Assurance and certification of GMCA grant claims.
- Support in the development of GMCA governance arrangements.
- Consolidation of counter fraud strategies, systems, processes and procedures.
- Review and confirmation of audit strategy, arrangements and plans for the GMCA and former GMPCC and GMFRS functions.
- Development of risk and assurance governance framework for the GMCA incorporating new functions and to reflect ongoing risk and assurance activities within GMP, GMFRS and Transport for Greater Manchester.

**Quarter Three-Four (September 2017- March 2018):**

- Assurance and certification of GMCA grant claims.
- Working Well Programme - System and Process Review
- GM Connect – Governance and Project Review
- Housing and Planning – Housing Investment Fund Review
- Procurement and payments – System and Process Review
- Loans and Investments – Risk Based Review
- Support in development of the Annual Governance Statement

4.5 Detailed audit assignment scopes will be agreed with the GMCA Treasurer and other relevant officers as appropriate.

5 **Annual Internal Audit Plan 2016/17**

5.1 This emergent plan allocates 275 days of audit support for 2017/18, an increase of 81 days over the 2016/17 resource allocation which is to reflect some work carried from 2016/17 and support required in the first half of the year in the coordination and development of counter fraud, risk management and assurance activities and providing assurance over the consolidation of financial systems and processes.

5.2 There remains a need for flexibility in the plan to respond to risks or issues emerging in the year and to reflect areas of potential efficiency, overlap or omission
between the GMCA audit plan and the emergent plans that will be approved for the GMPCC and GMFRS.

6 **Reporting Against the Annual Plan**

*Assignments*

6.1 A written report will be issued by the Head of Audit and Risk Management following the conclusion of internal audit assignments. The report will include audit findings and recommendations and management’s response to them.

*Progress Reports*

6.2 Through the year the Head of Audit and Risk Management will report to Audit Committee on:
   - Progress with delivery against plan including any necessary changes;
   - Findings and assurances from specific audits including any significant control issues identified; and
   - Progress made to implement recommendations from previous audit reports.

*Annual Head of Internal Audit Assurance Opinion*

6.3 The Head of Audit and Risk Management will submit an annual report to Audit Committee which contains his annual assurance opinion and the outturn report against the annual plan. This report:
   - Summarises audit assignments carried out in the year and assurances provided;
   - Reports achievement against the annual plan; and
   - Gives an assurance opinion on the adequacy and effectiveness of the internal control system which informs the Authority’s Annual Governance Statement.

7 **Wider Assurance Framework**

7.1 While Internal Audit’s annual plan provides essential independent assurance over governance, risk management and internal control arrangements other sources of assurance include:
   - Member assurance from committee review, scrutiny and approval of key decisions, policies, governance arrangements etc.
   - Management assurance through day to day management review and self-assessment of governance arrangements and financial controls.
   - Assurances obtained by financial, legal, HR, procurement and other officers across the GMCA.
   - Assurances provided to the Chief Constable, County Fire Officer and Chief Executive of TfGM
   - Assurances provided to the Audit Committees of TfGM and Chief Constable.
   - Reports of External Audit and Inspectors.

8 **Recommendations**

8.1 Members are requested to consider and approve the emergent Internal Audit Annual Plan and initial resource allocation for 2017/18.

8.2 Members are requested to receive an updated audit plan at the next Audit Committee
The Audit Plan for
Greater Manchester Combined Authority

Year ended 31 March 2017

4 April 2017

Mark Heap
Engagement Lead
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Dear Members of the Audit Committee

Audit Plan for Greater Manchester Combined Authority (GMCA) for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of GMCA, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Authority and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:
- give an opinion on the Authority’s financial statements
- satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Mark Heap, Engagement Lead

4 April 2017

Chair and Members of the Audit Committee
Greater Manchester Combined Authority
Churchgate House
56 Oxford Street
Manchester
M1 6EU
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Understanding your business and key developments</td>
<td>4</td>
</tr>
<tr>
<td>2. Materiality</td>
<td>5</td>
</tr>
<tr>
<td>3. Significant risks identified</td>
<td>6</td>
</tr>
<tr>
<td>4. Other risks identified</td>
<td>7</td>
</tr>
<tr>
<td>5. Group audit scope and risk assessment</td>
<td>9</td>
</tr>
<tr>
<td>6. Value for Money</td>
<td>10</td>
</tr>
<tr>
<td>7. Other audit responsibilities</td>
<td>12</td>
</tr>
<tr>
<td>8. Results of interim audit work</td>
<td>13</td>
</tr>
<tr>
<td>9. The audit cycle</td>
<td>14</td>
</tr>
<tr>
<td>10. Audit fees</td>
<td>15</td>
</tr>
<tr>
<td>11. Independence and non-audit services</td>
<td>16</td>
</tr>
<tr>
<td>12. Communication of audit matters with those charged with governance</td>
<td>17</td>
</tr>
</tbody>
</table>
1. Understanding your business and key developments

### Developments

#### 2017-18 Financial budget

GMCA presented its 2017-18 budget in January 2017. We will consider the forthcoming budget and the Authority’s medium term financial strategy (MTFS) as part of our year-end Going Concern review.

#### Delivery of the capital programme

GMCA in partnership with Transport for Greater Manchester (TfGM) is currently engaged in a significant programme of investment in public transport infrastructure across Greater Manchester. Significant capital investment of over £200m is projected in each of the next three years, including district schemes funded directly by the Authority.

We will take account the Authority’s investment programme in performing our audit. In particular we will perform testing to assess compliance with the CIPFA Code of Accounting Practice in relation to revenue expenditure funded for capital under statute “REFCUS” and capitalisation of expenditure. REFCUS is principally expenditure which qualifies as capital by its nature (for example, it creates, or enhances an asset) but the asset itself is not owned by the Authority – an example of this is the funding of TfGM capital expenditure.

### Key challenges

#### Devolution agenda and the integration of new services and responsibilities to GMCA

Devolution of powers to the Greater Manchester area continues with the election of a Mayor in May 2017. From May 2017, the Authority is expected to take on additional functions of the Office of the Police and Crime Commissioner for Greater Manchester, the functions of the Greater Manchester Fire and Rescue Service and, in 2018-19, the functions of the Greater Manchester Waste Disposal Authority.

Given the level of major change that is commencing from the start of the next financial year, we are proposing to consider a review of the Authority’s arrangements for planning for the transfer of these new functions and responsibilities as part of our 2016-17 VFM conclusion (see section 6, page 11 of this Plan for more details).

#### Key performance indicators 2016-17

<table>
<thead>
<tr>
<th>Measure</th>
<th>Target</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport Revenue budget of £227m</td>
<td>Balanced</td>
<td>On track</td>
</tr>
<tr>
<td>Non-transport revenue budget of £28m</td>
<td>Balanced</td>
<td>Underspend of c£1m</td>
</tr>
</tbody>
</table>

### Financial reporting changes

#### CIPFA Code of Practice 2016-17 (the Code)

Changes to the Code in 2016-17 reflect aims of the ‘Telling the Story’ project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015-16 comparatives by way of a prior period adjustment.

#### Earlier closedown

The Accounts and Audit Regulations 2015 require local authorities to bring forward the approval and audit of financial statements to 31 July by the 2017-18 financial year. We have discussed the earlier timetable for next year’s accounts with the senior finance team. As part of our 2016-17 audit, we have started the preparation for an early close and audit process by bringing forward a proportion of our audit work to our interim audit in March.

We will continue dialogue with the finance team throughout 2016-17 to identify further efficiencies in our audit approach to ensure GMCA is ready to meet the new statutory timetable.

### Our response

- We aim to complete all our substantive audit work on your financial statements by early August 2017
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016-17 Code
- We will keep you informed of changes to the financial reporting requirements for 2016-17 through on-going discussions
- Key members of your finance team have been invited to our technical accounting workshops in March.

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2. Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. 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. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Authority. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Authority. For purposes of planning the audit we have determined overall materiality to be £6,563,000 for the Authority and £7,333,000 for the Group (being 1.75% of gross revenue expenditure from 2015-16). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £328,000 for the Authority and £367,000 for the Group.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

<table>
<thead>
<tr>
<th>Balance/transaction/disclosure</th>
<th>Explanation</th>
<th>Materiality level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements</td>
<td>Due to public interest in these disclosures and the statutory requirement for them to be made.</td>
<td>£20,000</td>
</tr>
<tr>
<td>Related Party Transactions</td>
<td>Due to public interest in these disclosures and the statutory requirement for them to be made.</td>
<td>£20,000 (Individual misstatements will also be evaluated with reference to how material they are to the other party).</td>
</tr>
</tbody>
</table>

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. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)
### 3. Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Description</th>
<th>Audit procedures</th>
</tr>
</thead>
</table>
| **The revenue cycle includes fraudulent transactions** | 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 GMCA, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:  
  - there is little incentive to manipulate revenue recognition  
  - opportunities to manipulate revenue recognition are very limited  
  - the culture and ethical frameworks of local authorities, including GMCA, mean that all forms of fraud are seen as unacceptable. |

| Management over-ride of controls | Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. | **Work completed to date:**  
  - Review of journal entry process and walkthrough of controls in place  
  **Further work planned:**  
  - Review of accounting estimates, judgments and decisions made by management  
  - Testing of large and unusual journal entries back to supporting documentation  
  - Review of unusual significant transactions. |

“Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.” (ISA (UK and Ireland) 315). In making the review of unusual significant transactions “the auditor shall treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks.” (ISA (UK and Ireland) 550)
4. Other 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 or other risk 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.

<table>
<thead>
<tr>
<th>Other risks</th>
<th>Description of risk</th>
<th>Audit procedures</th>
</tr>
</thead>
</table>
| Changes to the presentation of local authority financial statements | CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016-17 Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015-16 comparative figures is also required. | Work completed to date:  
• We have liaised with management, discussing this issue in a proactive manner in advance of the year-end  
Further work planned:  
• Review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) 2015-16 comparatives to ensure that they are in line with GMCA’s internal reporting structure  
• Review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).  
• Test the classification of income and expenditure for 2016-17 recorded within the Cost of Services section of the CIES  
• Test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger  
• Test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements  
• Review the new segmental reporting disclosures within the 2016-17 financial statements to ensure compliance with the CIPFA Code of Practice.  
We will update the Committee with our conclusion and summary findings in our Audit Findings Report in September 2017. |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity’s controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)
Other risks identified (continued)

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 and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

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 the previous sections but will include:

- Property, plant and equipment
- Debtors (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Revenue expenditure funded from capital under statute
- Capital grants receivable
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Expenditure and Funding Analysis plus supporting notes
- Officers' remuneration note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note.

Subsequent events review (Post balance sheet events)
Given the change in the Authority’s make up and responsibilities after 31 March 2017, we anticipate the requirement for some form of non-adjusting post balance sheet disclosure note to be included within the Authority’s 2016-17 accounts. We will liaise with the finance team in relation to the format and content of this note as the changes crystallise post year-end. We will comment on the adequacy of the disclosure in our ISA260 Report, due to be presented to the Audit Committee in September 2017.

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5. Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

<table>
<thead>
<tr>
<th>Component</th>
<th>Significant?</th>
<th>Level of response required under ISA 600</th>
<th>Risks identified</th>
<th>Planned audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport for Greater Manchester (TfGM)</td>
<td>Yes</td>
<td>Comprehensive</td>
<td>None</td>
<td>We will obtain assurance from our audit of TfGM's 2016-17 financial statements and we will review and test the consolidation of these financial statements into the GMCA group financial statements.</td>
</tr>
<tr>
<td>Greater Manchester Accessible Transport Limited</td>
<td>No</td>
<td>Analytical</td>
<td>None</td>
<td>Desktop analytical procedures review performed by the Grant Thornton audit engagement team.</td>
</tr>
<tr>
<td>New Economy</td>
<td>No</td>
<td>Analytical</td>
<td>None</td>
<td>Desktop analytical procedures review performed by the Grant Thornton audit engagement team.</td>
</tr>
<tr>
<td>MIDAS</td>
<td>No</td>
<td>Analytical</td>
<td>None</td>
<td>Desktop analytical procedures review performed by the Grant Thornton audit engagement team.</td>
</tr>
</tbody>
</table>

**Audit scope:**

**Comprehensive** – the component is of such significance to the group as a whole that an audit of the components financial statements is required

**Targeted** – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

**Analytical** – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level
6. Value for Money

Background
The Code requires us to consider whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016-17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the 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 opposite:

<table>
<thead>
<tr>
<th>Sub-criteria</th>
<th>Detail</th>
</tr>
</thead>
</table>
| **Informed decision making**    | • Acting in the public interest, through demonstrating and applying the principles and values of sound governance  
• Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management  
• Reliable and timely financial reporting that supports the delivery of strategic priorities  
• Managing risks effectively and maintaining a sound system of internal control |
| **Sustainable resource deployment** | • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions  
• Managing and utilising assets effectively to support the delivery of strategic priorities  
• Planning, organising and developing the workforce effectively to deliver strategic priorities. |
| **Working with partners and other third parties** | • Working with third parties effectively to deliver strategic priorities  
• Commissioning services effectively to support the delivery of strategic priorities  
• Procuring supplies and services effectively to support the delivery of strategic priorities. |
Value for Money (continued)

Risk assessment

At the time of producing this plan, we have performed our initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Authority, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- any findings of other inspectorates and review agencies
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified the following significant risk set out in the table below, which we are required to communicate to you.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Link to sub-criteria</th>
<th>Work proposed to address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrangements and planning for the integration of other Greater Manchester bodies into GMCA and the take on of additional powers and functions</td>
<td>This links to the Authority’s arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</td>
<td>We will review the Authority's plans to prepare for the significant change in its functions from 2017-18, ensuring appropriate arrangements are in place to take on the additional powers, responsibilities and people from May 2017.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This is expected to involve a review of the Authority’s project plan, discussions with relevant officers, observing how ‘Those charged with governance’ are kept informed of developments and seeking the views of internal audit.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>We will continue to remain alert to the possibility of other risks to the Value for Money Conclusion, in particular through ongoing liaison meetings with senior officers, review of Authority minutes and papers, our audit of the 2016-17 financial statements and our attendance at Audit Committee.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report, due to be presented to the Committee in September, and in the Annual Audit Letter later in 2017.

We will include our conclusion in our auditor's report on your financial statements which we are aiming to issue in September 2017.
7. Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the 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 will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.

- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements
  - issue of a report in the public interest
  - making a written recommendation to the Authority, copied to the Secretary of State.

- We certify completion of our audit.
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

<table>
<thead>
<tr>
<th>Interim audit area</th>
<th>Work performed and findings</th>
<th>Summary / Conclusion</th>
</tr>
</thead>
</table>
| **Entity level (GMCA wide) controls**  | We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:  
• Communication and enforcement of integrity and ethical values  
• Commitment to competence  
• Participation by those charged with governance  
• Management's philosophy and operating style  
• Organisational structure  
• Assignment of authority and responsibility  
• Human resource policies and practices. | Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.                                                                                     |
| **Assurances from management and those charged with governance** | As part of our planning work to consider GMCA’s governance arrangements, we have raised a number of questions to both management and those charged with governance.  
In common with previous years, the questions deal with a variety of issues such as internal control, risk management, fraud and litigation, and the potential impact of these areas on the Authority’s annual accounts. | We are aware that responses from management and those charged with governance are being collated.  
We expect to receive these in time for the Audit Committee expected to take place in July 2017 which will coincide with the commencement of our final audit visit.                           |
| **Journal entry controls**             | We have reviewed GMCA’s journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the authority’s control environment or financial statements. | Our work on journal entries to date has not identified any issues we wish to highlight for your attention.                                                                                                            |
9. The audit cycle

The audit timeline

**Key dates:**
- **Year end:** 31 March 2017
- **‘Clearance’ meeting:** Early September 2017
- **Audit Committee:** Prior to 20 September 2017 [TBC]
- **Targeted Sign off date:** By September 2017

**Audit phases:**
- **Planning:** October 2016 – February 2017
- **Interim audit:** March 2017
- **Final audit visit:** July – early August 2017
- **Completion:** Early September 2017
- **Debrief:** Autumn 2017

**Key elements**
- Regular liaison meetings with management to inform audit planning and agree audit timetable
- Discussions with those charged with governance and internal audit to inform audit planning
- Issue Progress reports to management and Audit Committee.

- Document design effectiveness of key accounting systems and processes
- Early substantive audit testing
- Issue audit working paper requirements to management
- Initial Value for Money risk assessment
- Discuss draft Audit Plan with management
- Issue the Audit Plan to management and Audit Committee
- Meeting with Audit Committee to discuss the Audit Plan on 19 April.

- Audit team onsite to complete detailed audit testing
- Review of key judgements and estimates
- Weekly update meetings with the finance team to ensure ‘no surprises’ in our Audit Findings Report and that issues are raised and resolved on a timely basis
- Review of Annual Governance Statement
- Review of Going Concern assumption
- Review of Value for Money arrangements.

- Issue draft Audit Findings to management
- Meeting with management to discuss Audit Findings
- Issue draft Audit Findings to Audit Committee
- Audit Findings presentation to Audit Committee
- Finalise approval and signing of financial statements and audit report
- Submission of WGA assurance statement by 30 September
- Annual Audit Letter to be drafted and discussed with the Chief Executive and Treasurer in Autumn 2017.
10. Audit Fees

<table>
<thead>
<tr>
<th>Fees</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>GMCA audit</td>
<td>24,255</td>
</tr>
<tr>
<td>Total audit fees (excluding VAT)</td>
<td>24,255</td>
</tr>
</tbody>
</table>

**Fees for other services**

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

**What is included within our fees**

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Constructive feedback on your people and your processes
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas impacting across our client base
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team.

**Our fee assumptions include:**

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and GMCA and its activities, have not changed significantly
- GMCA will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.
11. Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

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 Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to GMCA. The following audit related and non-audit services were identified for GMCA for 2016-17 to date:

### Fees for other services

<table>
<thead>
<tr>
<th>Service</th>
<th>Fees £</th>
<th>Planned outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit related:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant funding audit</td>
<td>5,500</td>
<td>Provision of an Accountant's Report relating to Regional Growth Fund 2 (May 2016)</td>
</tr>
<tr>
<td>Non-audit related:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>-</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit 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. This will be presented to the Committee in September 2017.

The above service is consistent with GMCA’s policy on the allotment of non-audit work to your auditors.
12. Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to GMCA.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This Plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as GMCA independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (‘the Code’) issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers GMCA’s key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of GMCA 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 GMCA is fulfilling these responsibilities.

Our communication plan

<table>
<thead>
<tr>
<th>Audit Plan</th>
<th>Audit Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respective responsibilities of auditor and management &amp; those charged with governance</td>
<td>✔</td>
</tr>
<tr>
<td>Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications</td>
<td>✔</td>
</tr>
<tr>
<td>Views about the qualitative aspects of the entity’s accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought</td>
<td>✔</td>
</tr>
<tr>
<td>Confirmation of independence and objectivity</td>
<td>✔  ✔</td>
</tr>
<tr>
<td>A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence</td>
<td>✔  ✔</td>
</tr>
<tr>
<td>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged</td>
<td>✔</td>
</tr>
<tr>
<td>Details of safeguards applied to threats to independence</td>
<td>✔</td>
</tr>
<tr>
<td>Material weaknesses in internal control identified during the audit</td>
<td>✔</td>
</tr>
<tr>
<td>Identification or suspicion of fraud involving management and / or others which results in material misstatement of the financial statements</td>
<td>✔</td>
</tr>
<tr>
<td>Non compliance with laws and regulations</td>
<td>✔</td>
</tr>
<tr>
<td>Expected modifications to the auditor’s report, or emphasis of matter</td>
<td>✔</td>
</tr>
<tr>
<td>Uncorrected misstatements</td>
<td>✔</td>
</tr>
<tr>
<td>Significant matters arising in connection with related parties</td>
<td>✔</td>
</tr>
<tr>
<td>Significant matters in relation to going concern</td>
<td>✔  ✔</td>
</tr>
</tbody>
</table>
Stephen Downs  
Audit Committee Chair  
Greater Manchester Combined Authority  
Town Hall  
Albert Square  
Manchester  
M60 2LA

28 March 2017

Dear Stephen

Greater Manchester Combined Authority Financial Statements for the year end 31 March 2017

Understanding how the Authority gains assurance from senior officers

As part of our audit of Greater Manchester Combined Authority’s financial statements (including the Group financial statements) for 2016/17, we need to update our understanding of how the Authority gains assurance over senior officer processes and arrangements. We do this to maintain our understanding of Greater Manchester Combined Authority and to comply with International Auditing Standards.

I would be grateful, therefore, if you could write to me in your role as member of the Authority and Audit Committee Chair with your responses to the following questions.

1 How does the Authority oversee senior officers’ processes in relation to:
   – carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
   – identifying and responding to the risk of breaches of internal control
   – identifying and responding to risks of fraud (including any specific risks of fraud which officers have identified or that have been brought to their attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
   – communicating to officers its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?

2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
3 How does the Authority gain assurance that all relevant laws and regulations have been complied with?

4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail. Could you please complete this schedule and return it to me by the end of June, if possible, to help inform our planning process.

For information, we are also required to make enquiries of officers and recently sent a letter and schedule of questions to Richard Paver, (the schedule of questions is attached for your information).

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Gareth Mills
Senior Audit Manager
for Grant Thornton UK LLP

T 0113 200 2535
E gareth.mills@uk.gt.com
Greater Manchester Combined Authority

Responses from Audit Committee Chair:

**Fraud risk assessment**

<table>
<thead>
<tr>
<th>Auditor Question</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has GMCA assessed the risk of material misstatement in the financial statements (including the Group statements) due to fraud?</td>
<td></td>
</tr>
<tr>
<td>What are the results of this process?</td>
<td></td>
</tr>
<tr>
<td>What processes does GMCA have in place to identify and respond to risks of fraud (including risks within Group components)?</td>
<td></td>
</tr>
<tr>
<td>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</td>
<td></td>
</tr>
<tr>
<td>Are internal controls, including segregation of duties, in place and operating effectively across GMCA and Group components?</td>
<td></td>
</tr>
<tr>
<td>If not, where are the risk areas and what mitigating actions have been taken?</td>
<td></td>
</tr>
<tr>
<td>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</td>
<td></td>
</tr>
<tr>
<td>Are there any areas where there is a potential for misreporting?</td>
<td></td>
</tr>
<tr>
<td>How does the Audit Committee exercise oversight over officer's processes for identifying and responding to risks of fraud at GMCA and other Group components?</td>
<td></td>
</tr>
<tr>
<td>What arrangements are in place to report fraud issues and risks to the Audit Committee?</td>
<td></td>
</tr>
<tr>
<td>How does GMCA communicate and encourage ethical behaviour amongst officers and partners?</td>
<td></td>
</tr>
<tr>
<td>How do you encourage officers to report their concerns about fraud?</td>
<td></td>
</tr>
<tr>
<td>Have any significant issues been reported?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of any whistleblowing tips or complaints?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of any instances of actual, suspected or alleged, fraud, either within GMCA or other Group components since 1 April 2016?</td>
<td></td>
</tr>
<tr>
<td>What are your views on the risks of fraud within other Group components?</td>
<td></td>
</tr>
</tbody>
</table>
## Law and regulation

<table>
<thead>
<tr>
<th>Auditor Question</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>What arrangements does GMCA have in place to prevent and detect non-compliance with laws and regulations?</td>
<td></td>
</tr>
<tr>
<td>How do officers gain assurance that all relevant laws and regulations have been complied with?</td>
<td></td>
</tr>
<tr>
<td>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</td>
<td></td>
</tr>
<tr>
<td>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016?</td>
<td></td>
</tr>
<tr>
<td>What arrangements does GMCA have in place to identify, evaluate and account for litigation or claims?</td>
<td></td>
</tr>
<tr>
<td>Is there any actual or potential litigation or claims that would affect the financial statements?</td>
<td></td>
</tr>
<tr>
<td>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?</td>
<td></td>
</tr>
</tbody>
</table>
Dear Richard

Greater Manchester Combined Authority Financial Statements for the year end 31 March 2017

As part of our audit of Greater Manchester Combined Authority's financial statements (including the Group financial statements) for 2016/17, we need to update our understanding of senior officers' processes in place to prevent and detect fraud and to ensure compliance with law and regulation. We do this to maintain our understanding of the Authority and to comply with International Auditing Standards. We are also required to make inquiries of both officers and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document senior officers' views on some key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the accompanying schedules. In completing this task, you may wish to take into account the views of other senior officers where you think appropriate. The schedule relates to operational issues as well as the financial statements.

In addition to this request, we will also need to gain an understanding of how the Audit Committee maintains oversight of the above processes. I have also enclosed a letter addressed to Stephen Downs, Chair of the Audit Committee and would be grateful if you would kindly forward this on to him.

In preparing your responses, it would assist me greatly if you could include a summary of evidence that you have relied on to inform your responses, and the sources of assurance that you have that the relevant controls have operated effectively through the financial year to date and will operate up to the date the accounts are approved.

I would be grateful for your responses by the end of June, if possible, to help inform our planning process.
Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Gareth Mills
Senior Audit Manager
For Grant Thornton UK LLP

T 0113 200 2535
E gareth.mills@uk.gt.com
**Greater Manchester Combined Authority**

**Responses from Senior Officers:**

<table>
<thead>
<tr>
<th>Auditor question</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>What do you regard as the key events or issues that will have a significant impact on the financial statements (including the Group) for 2016/17?</td>
<td></td>
</tr>
<tr>
<td>Have you considered the appropriateness of the accounting policies adopted by GMCA (including the Group)? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of any changes to GMCA’s regulatory environment that may have a significant impact on the financial statements?</td>
<td></td>
</tr>
<tr>
<td>How would you assess the quality of the GMCA’s and the Group’s internal control processes?</td>
<td></td>
</tr>
<tr>
<td>How would you assess GMCA’s and the Group’s processes for reviewing the effectiveness of internal control?</td>
<td></td>
</tr>
<tr>
<td>How do GMCA’s and the Group’s risk management processes link to financial reporting?</td>
<td></td>
</tr>
<tr>
<td>How would you assess GMCA’s and the Group’s arrangements for identifying and responding to the risk of fraud?</td>
<td></td>
</tr>
<tr>
<td>What has been the outcome of these arrangements so far this year?</td>
<td></td>
</tr>
<tr>
<td>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud for GMCA and other Group components?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</td>
<td></td>
</tr>
<tr>
<td>Have any reports been made under the Bribery Act?</td>
<td></td>
</tr>
<tr>
<td>As a senior officer team, how do you communicate GMCA and other Group components risk issues (including fraud) to those charged with governance?</td>
<td></td>
</tr>
<tr>
<td>As a senior officer team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</td>
<td></td>
</tr>
<tr>
<td>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</td>
<td></td>
</tr>
<tr>
<td>Is there any use of financial instruments, including derivatives?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of any significant transactions outside the normal course of business?</td>
<td></td>
</tr>
<tr>
<td>What is the current status of prior year contingencies.</td>
<td></td>
</tr>
<tr>
<td>Are you aware of any changes in circumstances at GMCA or other Group components that would lead to impairment of non-current assets?</td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Answer</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Are you aware of any guarantee contracts?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of allegations of fraud, errors, or other irregularities during the period at GMCA or other Group components?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of any instances of non-compliance with laws or regulations or is GMCA on notice of any such possible instances of non-compliance?</td>
<td></td>
</tr>
<tr>
<td>Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of any transactions, events and conditions (or changes in these) at GMCA or other Group components that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?</td>
<td></td>
</tr>
<tr>
<td>Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimation uncertainty inherent in the estimates?</td>
<td></td>
</tr>
<tr>
<td>Are you aware of the existence of loss contingencies and/or unasserted claims that may affect the financial statements?</td>
<td></td>
</tr>
<tr>
<td>Has the senior officer team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment? Is the senior officer team aware of other events or conditions that may cast doubt on GMCA's ability to continue as a going concern?</td>
<td></td>
</tr>
<tr>
<td>What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</td>
<td></td>
</tr>
<tr>
<td>Can you provide details of those solicitors utilised by GMCA during the year. Please indicate where they are working on open litigation or contingencies from prior years?</td>
<td></td>
</tr>
<tr>
<td>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</td>
<td></td>
</tr>
<tr>
<td>Have any of GMCA’s service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</td>
<td></td>
</tr>
</tbody>
</table>