CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY | JAMES PALMER CAMBRIDGESHIRE & PETERBOROUGH MAYOR

AUDIT & GOVERNANCE COMMITTEE

Date:Friday, 29 January 2021

Democratic Services

Robert Parkin Dip. LG.
Chief Legal Officer and Monitoring Officer

10:00 AM

72 Market Street
Ely
Cambridgeshire
CB7 4LS

Due to Government guidance on social-distancing and the Covid-19 virus it will not be possible to hold physical meetings of the Combined Authority Board and the Combined Authority's Executive Committees for the time being. The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 allows formal local government meetings to be held on a virtual basis, without elected members being physically present together in the same place. Meetings will therefore be held on a virtual basis and the procedure is set out in the "Procedure for Combined Authority Virtual Decision-Making" which will be available to view at the foot of the meeting page under the "Meeting Documents" heading when the agenda and reports have been published. That document will also contain a link which will allow members of the public and press to observe the

virtual meetings.
[Venue Address]

AGENDA

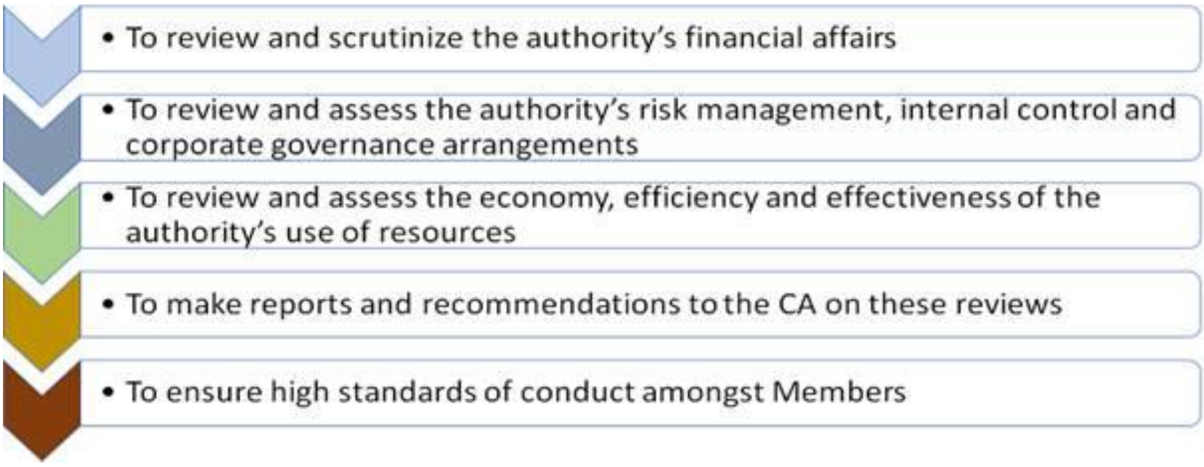
Open to Public and Press

11th March 2022
27th May 2022

The Audit & Governance Committee comprises the following members:

For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact

<u>The Audit and Governance Committee Role.</u>



The Combined Authority is committed to open government and members of the public are welcome to attend Committee meetings. It supports the principle of transparency and encourages filming, recording and taking photographs at meetings that are open to the public. It also welcomes the use of social networking and micro-blogging websites (such as Twitter and Facebook) to communicate with people about what is happening, as it happens.

Councillor David Brown

John Pye

Councillor Ian Benney

Councillor Graham Bull

Councillor Mike Davey

Councillor Mark Goldsack

Councillor Tony Mason

Councillor Nick Sandford

Clerk Name:	Robert Fox
Clerk Telephone:	
Clerk Email:	Robert.Fox@cambridgeshirepeterborough-ca.gov.uk

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY | JAMES PALMER CAMBRIDGESHIRE & PETERBOROUGH MAYOR

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY –

DRAFT MINUTES

AUDIT AND GOVERNANCE COMMITTEE: MINUTES

Date: 27 November 2020

Time: 9:30am

Location: Virtual Zoom Meeting

Present:

Mr John Pye	Chairman
Cllr Ian Benney	Fenland District Council
Cllr Tony Mason	South Cambridgeshire District Council
Cllr Mark Goldsack	Cambridgeshire County Council
Cllr Nick Sandford	Peterborough City Council
Cllr Graham Bull	Huntingdonshire District Council
Cllr David Brown	East Cambridgeshire District Council
Cllr Mike Davey	Cambridge City Council

Officers:

Dermot Pearson	Solicitor
Anne Gardiner	Scrutiny Officer
Kim Sawyer	Interim Chief Executive
Jon Alsop	Chief Finance Officer (S73 Officer)
Robert Emery	Deputy (S73 Officer
Paul Raynes	Director of Delivery and Strategy
Graeme Hughes	Cambridgeshire County Council
Joe Manning	KPMG
Holly Davis	KPMG
Francesca Houston	Transport Programme Coordinator
Daniel Harris	RSM
Jai Desai	RSM
Janet Warren	Interim SRO Adult Education Budget/Commissioner AEB
Suresh Patel	Ernst & Young
Dan Cooke	Ernst & Young

Also in attendance – Mayor James Palmer – Cambridgeshire and Peterborough Combined Authority

1. Apologies for Absence and Declarations of Interest

1.1 No apologies received and no declarations of interest.

2. Mayor for the Combined Authority in attendance

2.1 Mayor James Palmer attended to answer questions from the Committee,and provided an update on the MCHLG and the Combined Authority activity.

The Mayor outlined the below points:-

It had been a difficult time for country and for Cambridgeshire; the Mayor felt that the county had borne the brunt of lockdown despite not necessarily needing to be in lockdown which has had a significant impact on the economy and on individuals; the Combined Authority had worked hard to mitigate the effect and impact this had had.

The Combined Authority had provided capital grants to over 100 businesses in the county to help manage the impact from the Covid pandemic. There had been an investment of £51m into the Cambridgeshire economy via the Business Board. In particular, the successful delivery of Peterborough University and the backing for phase two from government which provides a further £60m. This would be transformational for the city and had already had a positive effect with other investments rolling in for regeneration of the city.

The Combined Authority had continued to deliver on projects across the county during lockdown, which was a tribute to staff and had shown that the organisation did not require a physical building to successfully continue delivering. The savings from ending the lease on the building at Alconbury had been recycled back into funding to invest into the local economy.

The Combined Authority had recently set up the Special Purpose Vehicle for the CAM and this was to ensure that this project would go from strength to strength. The CAM was not just a public transport system but also a growth platform; it would lead to better planning policy, better housing development and business growth; with the aim being to eventually reach into the Fens and Wisbech as well. The quality of people we had taken on for the CAM SPV shows how seriously people are taking the project.

Important for politicians to step out of the politics bubble and remember that they serve the people - the Combined Authority does that; it was a system that government set up to do things differently. Cambridgeshire had missed out over the years so it wass important to push the system.

The Mayor was confident that Combined Authority was transparent; it had been set up transparently. The CPCA started with only 4 members of staff but had grown in four years and had taken on the Local Enterprise Partnership and Adult Education Budget.

To have started from a standing start to now being in a position where work had started on 72% of projects mentioned in the devolution deal was something staff should be extraordinarily proud of.

In regard to the letter received from MHCLG; we have worked through those allegations and most do not have backing. Work was being done appropriately and the Combined Authority was subject to extreme scrutiny.

The Mayor had had discussions with government and was very hopeful that there would be sign off on the housing fund shortly. We had signed up to deliver 1900 homes, with a deadline for 2000 being completed by 2022.

The Mayor was extraordinarily proud of the £40m rolling fund; set up as extra funding from government could not be guaranteed and the fund had enabled the CPCA to invest in projects such as the RAF site in Ely, Community Land Trusts and loan finance companies that deliver 100k homes. The fund ensured money would be there in perpetuity.

2.2 Members had submitted questions ahead of the meeting and responses were provided (Appendix A); the members asked supplementary questions and the following points were raised and discussed:-

- In response to a question regarding the Business Board holding meetings in private the Mayor responded that the decision to meet in public/private would be for the Chair of the Business Board to decide. Many issues discussed by the Business Board would need to be discussed in private and the Combined Authority was not unique in this fact; many Local Enterprise Partnerships meet in private.

- In response to a question about the CAM, the Mayor advised that CAM was not just an underground system for Cambridge, it was a method for connecting our county; a growth platform for Cambridgeshire. The CAM enables growth to be focused into new towns, which allows people to protect the existing small towns from urban sprawl. CAM would only work if there was connectivity into the rural areas and it was imperative that people could access the business park around Cambridge and in the future access Peterborough.

- In response to a question on the Climate Change Commission and the inclusion of the Commission in the decision making process, the Mayor advised that he saw the Climate Change Commission as the golden thread through the decision making process; it should enable development in the area to be more responsive to the environment and ensure that there were opportunities for nature to be included.

- In response to a question about accommodation for the University of Peterborough, the Mayor clarified that in the early phases of the university project there would be no student accommodation; this was due to the recommendation from the SPIER report which advised that the need for the university would be mainly from people living in north Cambridgeshire and these people would most likely continue to live at home while attending university.

- In response to a question about the Covid 19 support fund, the Mayor advised that the £5.9m had been fully invested into local businesses. The effect of that investment had been extraordinary and had made a big difference to local businesses. The Combined Authority would continue to support businesses and would invest in other ways.

- In response to a question about the Audit and Governance Committee putting standing enquiries in place to ensure any future allegations of breaches of good governance are considered by the Committee, the Mayor advised that would be a decision for the Committee and the Chair.

2.3 The Committee thanked the Mayor for attending the meeting and answering the member questions.

3. Chair's Announcements

3.1 The Chair advised there would be a Value for Money workshop run by the National Audit Office at the conclusion of the meeting.

3.2 The Chair advised Committee members that he had been informed by the Chief Finance Officer of two fraud attempts on the Combined Authority.

Both attempts were made by fraudsters intercepting e-mails and changing bank details in an attempt for payments to be made to an incorrect bank account.

The internal auditors, RSM were made aware of both attempts. In accordance with the Combined Authority's anti-fraud policy, RSM were working with 3C, the IT providers to establish the course of events and whether any Combined Authority e-mail account had been compromised.

The Chair advised that the Combined Authority had not lost any funds as a result of these fraud attempts.

RSM were requested to bring forward their proposed audit on IT systems, which was planned to include a review of network and Cyber security and would report to the Audit and Governance Committee in January.

4. Minutes of the last Meeting

4.1 The minutes from the meeting held on the 2nd October were agreed as a correct record subject to the correction of a misspelling at paragraph 4.4.

The actions from the previous meeting were noted.

5. Lancaster Way

5.1 The Committee received the report which provided the Committee with an update on the independent value for money review of the Lancaster Way project, as jointly commissioned by the Combined Authority (CPCA) and Cambridgeshire County Council (CCC).

5.2 The Committee were informed that the Combined Authority and Cambridgeshire County Council had accepted all the recommendations of the report from KPMG and many of the recommendations had already been implemented. The report set out action plan for future arrangements.

Members commented that the main stakeholders were the residents of Witchford and that projects such as this must be done better in the future.

In response to a question on assurances going forward, the committee were informed t the report was something to work on and a much better system was in place now. Continuous improvement was the important factor here; identifying upcoming risks and having a change control strategy that was not in place three years ago.

5.3 The Committee agreed to note the report and recommend it to the Transport and Infrastructure Committee to note.

5.4 The Committee requested that an update on the progress of the actions against the recommendations in report be brought to the next meeting

6. Relationship between Risk and Change Control

6.1 The Committee received the report which provided the Committee with a proposed Relationship between Risk and Change Control document, which was designed to enhance the current Risk Management Strategy and establish an early warning notification and change control process.

The Committee was requested to review the Relationship between Risk and Change Control document and suggest any changes they would like to put forward as a recommendation to the Combined Authority Board.

6.2 In response to a question around enforcing the system and disciplinary action against staff, the Committee were advised that the system was in place so officers had guidance to do their job; it provided a network around them to help deliver projects in a proper way.

In response to a question about whether staff had an understanding around risk management arrangements, the committee were advised that training had been delivered to an all team meeting on Risk Strategy. Risk had been discussed at CPCA team meeting, with key issues highlighted. There had also been 'Lunch and learn' sessions to discuss key issues.

There was a healthy training budget as it was vitally important to enable officers the skills to do the job well. Some training had been delayed due to the Covid Pandemic.

6.3 The Committee thanked the officer for an excellent report which provided a lot of information and AGREED to recommend its adoption to the Combined Authority Board.

7. Corporate Risk Register

7.1 The Committee reviewed the Combined Authority Corporate Risk Register.

7.2 Members were advised that the internal auditors were doing an audit of Risk Management so some changes in how risk was reported or managed may be coming forth.

7.3 In response to a question on items that had been moved from the Corporate Risk Register to the Corporate Services Risk register, the members were advised that this was due to a hierarchy of risks; risks would be escalated from the directorate risk register to the Corporate Risk register if a high level of scrutiny by members was required. It was a system intended to provide members with useful information rather than too much information, with only important high-level risks being reported to the Committee.

7.4 The Committee were advised that there was a Cyber security risk that was on the Corporate Services Risk register; in light of the recent fraud attempts this risk would be reviewed at the next Corporate Management Team meeting to consider whether it should be escalated to the Corporate Risk Register.

7.5 In response to a question around the risk detail for the Brexit risk the Committee were advised it was currently difficult to quantify what the exact risks arising from Brexit could be but officers were primed to consider this risk and the organisation had done as much mitigation as was possible. This was a live risk and once more detail about the risk was available it would be reviewed.

7.6 The Committee NOTED the report.

8. End of Year Financial Statements 2019/20 and External Audit and Opinion

8.1 The Committee received the report which asked them to approve:-

a) the final Statement of Accounts 2019/20
b) the Annual Governance Statement 2019/20
c) the Management Representation Letter 2019/20
d) the External Auditors report 2019/20

8.2 The Committee were advised that the final opinion from the External Auditors was not complete and requested that the committee approve the statement of accounts as set out in the report and delegate authority to the Chair to approve any minor changes.

8.3 The Committee were advised that the draft accounts had been brought to the committee on 31st July and had been on website since then until October. No queries or comments had been received from the public and, once approved by the Committee today, the accounts would be published on Monday 30th November.

8.4 Members requested some clarity around the wording for members' allowances as it appeared that only the Mayor received an allowance but then the report also stated that the Chair of the Business Board received an allowance. Officers agreed it should be clearer that the Mayor was the only member of the Combined Authority Board to receive an allowance, and that the Chair of the Business Board received an allowance in that capacity and not as a member of the Combined Authority Board and this would be rectified.

8.5 Members requested that it be made clear within the report that Charles Roberts had resigned from his position as a Director of East Cambs Trading Company Limited.

8.6 Members queried the information contained within note 6 of the accounts, as there was no detail around the expenditure and it was only by referring to the letter from Ernst and Young regarding the MCHLG that the members were made aware that the figures in note 6 referred to an exit payment for a former senior officer.

The Chair requested that information regarding the exit payment for the former senior officer be circulated to members of the Committee.

8.7 The External Auditors advised that the work had been very challenging to undertake during the Covid Pandemic, but that information from the Combined Authority officers had been of good quality and that officers had worked positively and cooperatively during this difficult time.

8.8 The Committee RESOLVED:

a) The Committee agreed to approve the final Statement of Accounts 2019/20 received and to delegate to the Chairman authority to approve further minor changes to the Statement of Accounts if needed before the deadline of 30 November 2020.
b) The Committee agreed to approve the Annual Governance Statement 2019/20
c) The Committee agreed to approve the Management Representation Letter 2019/20
d) The Committee agreed to approve the External Auditors Report 2019/20

9. Internal Audit Plan 2020/21

9.1 The Committee received the proposed 2020/21 internal audit plan and three-year internal audit strategy.

9.2 In response to a question about whether the Business Board and the CAM Special Purpose Vehicle would be included in the review of the processes in place for the appointments to Boards and Committees, the internal auditors advised that the scope of the review had not yet been finalised but they could be included.

9.3 The Committee approved the proposed Internal Audit Strategy 2020/21 to 2024/25 and the 2020/21 internal audit plan. and requested that the Business Board and the CAM Special Purpose Vehicle be included within the review of the processes in place for the appointments to Boards and Committees.

10. Adult Education Budget

10.1 The Committee received the report which provided an update for the Committee on the Adult Education Budget arrangements for Audit and Assurance.

10.2 The Committee noted the report and requested that a further update be brought to the March 2021 meeting of the Committee.

11. Work Programme for the Audit & Governance Committee

11.1 The Committee received the Work Programme report.

11.2 The Committee noted the report and **RESOLVED:**

1. A report with an update on the progress of the actions against the recommendations on Lancaster Way be brought to the next meeting
2. A report on the audit on Cyber Security and IT systems and the attempted fraud to come to the January 2021 Committee meeting.
3. A further update on the Adult Education Budget to come to the March 2021 Committee meeting.

12. Date of next meeting

12.1 Friday, 29 January 2021 from 10.00 a.m. via the Zoom platform.

Meeting Closed: 11:50am.

Audit and Governance Committee Action Sheet 2020/21

Meeting Date	Action	Officer	Delegated officer	Completed
	OPEN ACTIONS			
27 November 2020	That an update on the progress of the actions against the recommendations in the Lancaster Way report be brought to the next meeting of the Committee.	Jon Alsop/ Paul Raynes		To be included within the Assurance Framework – due to come to committee in March 2021
27 November	A report on the audit on Cyber Security and IT systems and the attempted fraud to come to the January Committee meeting.	Internal Auditors		
2 October 2020	A joint audit workshop with the internal and external auditors be programmed for April 2021	Internal Auditors/External Auditors	Anne Gardiner/Jon Alsop	Programmed for April 2020
2 October 2020	A further update on liaison between the Combined Authority and civil servants at the MHCLG to be provided	Kim Sawyer		To be provided at the Committee meeting of 29 January 2021
2 October 2020	The Chief Executive to provide the Committee with regular updates on the working relationship between the Combined Authority and Greater Cambridge Partnership as part of the CAB updates	Kim Sawyer		Ongoing
2 October 2020	To provide detail to the Committee on how much is being spent on the three officers mitigating on EU exit, factoring in the EU exit grant the Combined Authority receives.	Jon Alsop		

2 October 2020	The next report to the Committee to include a description on how the Climate Change risk is being managed	Robert Parkin		
26 May 2020/31 July 2020/2 October 2020	The Committee agreed to an independent review of the Lancaster Way Traffic Scheme	John Pye (Chair)/Robert Parkin/Jon Alsop		Chair's Announcement at 31 July 2020 meeting and further update at this meeting
31 July 2020	A report on information security and governance to be submitted to the Committee. This to be included in the work programme at an agreed date.	Robert Parkin		Final report not yet received. To be timetabled on the Committee Work Programme
31 July 2020	A further report to the Committee be programmed for December 2020 to explain the process for formulating recommendations	Paul Raynes	Adrian Cannard	January 2021 – no Committee meeting in December 2020
26 May 2020	There should be ongoing work to present the Risk Register in a legible format	Francesca Houston		Ongoing
26 May 2020	There be a future development session for the Committee on Trading Companies	Robert Parkin/ Rochelle White		To be timetabled
26 May 2020	Future 'to note' items are sent to members in advance of Committee publication deadlines	Robert Fox		Ongoing

26 May 2020	Update from the Data Protection Officer Update to include data on aspects such as the volume of data, any requests for erasure etc.	Robert Parkin	Rochelle White	January 2021
	CLOSED ACTIONS			
27 November 2020	Members to be sent email providing some clarity around the settlement payment for senior member of staff	Dermot Pearson	Dermot Pearson	Email sent to members – 10th December 2020
26 May 2020	Value for Money Workshop	Robert Fox/Jon Alsop		Completed November 2020
2 October 2020	At the 27 November 2020 meeting there should be detail on the risk register on those risks that are not included in the sequential number presentation (i.e. why are these no longer considered to be corporate risks)	Robert Parkin	Francesca Houston	Completed on agenda
2 October 2020	The Chief Executive to respond to the Committee on the criteria for the Market Town strategies and whether the response to Covid-19 relates to the commercial sector response or whether it also includes the community and health responses too	Kim Sawyer		Completed
2 October 2020	A full internal audit plan be presented to the Committee on 27 November 2020	Internal Auditor		Completed on agenda
2 October 2020	The final statement of accounts and External Audit Opinion to be received at the meeting of 27 November 2020	Jon Alsop		Completed on agenda

2 October 2020	The letter to Whitehall with regard to quoracy to be shared with the Chairs of the Audit & Governance Committee and Overview & Scrutiny Committee for input and approval prior to being sent	Robert Parkin		Completed. Response from the MHCLG awaited
2 October 2020	The Work Programme for the Committee to include the additional protocols for the Constitution as approved by the Combined Authority Board	Robert Parkin	Scrutiny Officer	Completed on agenda
31 July 2020	The Mayor of the CA be invited to the 2 October 2020 meeting of the Committee to update on the MHCLG correspondence	Scrutiny Officer		Completed on agenda for 27 November 2020; the Mayor being absent on leave on 2 October
31 July 2020	The Internal Audit Plan 2020/21 to be presented at the 2 October 2020 meeting of the Committee	Jon Alsop	RSM UK	Completed on agenda
31 July 2020	That a date for the workshop session for the Constitution review be forwarded to the Committee members as soon as possible.	Robert Parkin	Scrutiny Officer	Occurred on 17 September 2020 followed by a meeting to consider Constitution revisions on 24 September
31 July 2020	The names of all on the Independent Commission on Climate Change will be provided to the Committee.	Paul Raynes	Adrian Cannard	Provided to Committee members
31 July 2020	The Constitution review should include protocols for appointments to Boards, Commissions and Working Groups.	Robert Parkin		Consideration as part of the

				Constitution work moving forward
31 July 2020	A further update on the Corporate Risk Register will be received at the 2 October 2020 meeting of the Committee.			Completed on agenda
31 July 2020	The work programme revisions to be published alongside the minutes of the meeting	Scrutiny Officer		Published on the CA meetings website
31 July 2020	Climate change to appear on future risk register reports to the Committee as a discrete risk.	Francesca Houston		Completed
26 May 2020	The Independent Commission on Climate Change would be commencing its work shortly. The Chair asked that climate change be included on the Risk Register	Francesca Houston		Completed
26 May 2020	Adult Education Budget A & G requested a landscape view on areas where money has been contracted and the Combined Authority has the authority/obligation that standards are met.			Completed on agenda for 27 November 2020 meeting
26 May 2020	A response would be provided to the Committee related to the employment status of the Trading Companies Company Secretary	Robert Parkin		Verbal confirmation was provided at 31 July 2020 meeting
26 May 2020	Chief Executive to provide detail on the Local Transport Plan and how it relates to Peterborough	Kim Sawyer (CEO)		Provided in advance of 31 July 2020 meeting.
26 May 2020	Any changes to the membership of the Committee to be reported to the next meeting.	Robert Fox		Completed on agenda.

26 May 2020	A paper regarding Internal Audit provision following the cessation of the Service Level Agreement with Peterborough City Council would be presented to the next meeting	Jon Alsop		Completed on agenda.
26 May 2020	Action Sheets to be presented to future meetings in a format that more clearly distinguished open and closed actions	Robert Fox		Completed on agenda
26 May 2020	The Chair asked that the final statement of accounts be forwarded to members in advance of the publication deadline for the 31 July 2020 Committee meeting.	Jon Alsop		Completed
26 May 2020	A member requested further detail on the loans provided and who they were to as there are likely to be questions prompted by this	Jon Alsop		Completed on agenda
26 May 2020	The s.73 Officer agreed to make sure that the notes to the accounts provided context to the section on salaries and salary related payments, as this was likely to be an area of public interest	Jon Alsop		Completed on agenda
26 May 2020	The final statement of accounts notes would provide context to salaries and salary related payments	Jon Alsop		Completed on agenda
26 May 2020	A further update on External Audit requested for 31 July 2020 meeting	Ernst & Young		Completed on agenda
26 May 2020	The next Committee meeting on 31 July 2020 be presented with an updated risk register. That update should highlight the top three or four risks and show where risks were increasing or decreasing	Francesca Houston		Completed on agenda
26 May 2020	The presentation of the work programme be developed to improve clarity	Robert Fox		Completed on agenda

26 May 2020	Protocols for agreeing changes to the Audit Plan and developing future plans would be included as part of the next report to Committee in December 2019.	Steve Crabtree/Jon Alsop		Completed.

Agenda Item No: 5

Report title: Internal Audit Progress Report

To:	Cambridgeshire and Peterborough Combined Authority Audit and Governance Committee
Meeting Date:	29 January 2021
Public report:	Yes
Lead Member:	n/a
From:	Jon Alsop Chief Finance Officer
Key decision:	No
Forward Plan ref:	n/a
Recommendations:	The Committee is recommended to: a) note the internal audit progress report for 2020/21 as provided by the Combined Authority's newly appointed internal auditors, RSM Risk Assurance Services LLP (RSM); b) note the conclusions of the Risk Management Review report as provided by RSM

1. Purpose

1.1 This paper is to provide an update to the work that RSM have conducted against the internal audit plan for 2020/21 that they presented, and which was agreed at the November Audit and Governance Committee meeting.

1.2 The paper also provides the conclusions and recommendations of RSM's review of Risk Management, being the first audit report that RSM have completed since being appointed as the Combined Authority's internal auditors.

2. Background

2.1 At the November 2020 meeting, the Audit and Governance Committee approved the Internal Audit Strategy 2020/21 to 2024/25 and the 2020/21 internal audit plan as presented by RSM.

2.2 A key point of the approved audit plan for 2020/21 was that internal audit activity would be based on analysing the Combined Authority's corporate objectives, risk profile and assurance arrangements as well as other factors affecting the Combined Authority in the year ahead, including changes within the sector. Areas of attention would be linked to the Combined Authority's Risk Register, following discussions with the CPCA's Corporate Management Team (CMT).

2.3 The RSM Internal Audit team have commenced their work with the 2020/21 Internal Audit Plan. A progress report has been provided (appendix 1) and a copy of the full report for the first review of Risk Management has been included (appendix 2) for illustration purposes to inform the Audit and Governance Committee of the RSM internal audit delivery processes. Going forward, only those reviews with negative assurance opinions will be provided with more detail through the RSM progress report. A request can be made through the Monitoring Officer for access to any further details in relation to audit reports should members require view of full reports.

2.4 Key messages from the update report (appendix 1) include that one report has been finalised in respect of the Internal Audit Plan in relation to Risk Management which has resulted in a 'partial assurance' opinion. RSM noted that whilst the Combined Authority was making good progress towards embedding its risk management processes, there is still further work required to fully embed the changes introduced.

2.5 RSM are in the process of completing the fieldwork stages of key financial controls – accounts payable, and are at the planning stages for further reviews on:

a) Appointments to Boards and Committees
b) Impact of COVID-19 on the delivery of projects, and
c) Climate Change

2.6 The Risk Management review (appendix 2) shows a number of recommended management actions which have been agreed for implementation by 31st March 2021.

2.7 As discussed at the November meeting, the Combined Authority has recently been the target of an attempted fraud.

2.8 The RSM Counter Fraud (CF) team have supported an investigation led by the third party IT provider in line with the Combined Authority Anti-Fraud Policy which is very much ongoing and a series of actions are being worked through by the provider to investigate and learn from the attempted fraud. Regular updates are being provided to the Management team with independent oversight from the RSM CF team. The RSM CF colleagues are of the view that the provider has taken reasonable steps to identify the likely vulnerabilities and target specific areas.

2.9 As part of the response to the threat of fraud, an IT Controls review has been agreed as part of the 2020/21 Internal Audit Plan and the scope of review is being finalised. The fieldwork is to be undertaken in the coming weeks. An update will be provided to the Committee upon conclusion of the internal audit review.

Significant Implications

3. Financial Implications

3.1 Internal audit fees are within those agreed as part of the internal audit service contract.

4. Legal Implications

4.1 No legal implications have been identified.

5. Other Significant Implications

5.1 No other significant implications have been identified.

6. Appendices

6.1 Appendix 1 – Internal Audit update report (RSM)

6.2 Appendix 2 – Risk Management Review (RSM)

7. Background Papers

7.1 There are no other supporting or background documents which have been relied upon when preparing this report.

CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY

Internal Audit Progress Report

29 January 2021

RSM

CONTENTS

1 Key messages

The internal audit plan for 2020/21 was approved by the Audit and Governance Committee at the November 2020 meeting. This report provides an update on progress against that plan and summarises the results of our work to date.

2020/21 Internal Audit Delivery

One report has been finalised in respect of the 2020/21 Internal Audit Plan in relation to Risk Management which has resulted in a **partial assurance** opinion.

Whilst we noted that the Combined Authority was making good progress towards embedding its risk management processes, there is still further work required to fully embed the changes introduced. This progress has primarily been driven by the introduction of the Risk Management Strategy and the development of various levels of risk registers, some of which were still under development. Overall, it is evident that the control framework requires further strengthening to ensure that all areas of risk can be consistently managed, reviewed and reported.

We are in the process of completing the fieldwork stages of Key Financial Controls – Accounts Payable audit and we are at the planning stages for the reviews on:

- Appointments to Boards and Committees sponsored by the Combined Authority,
- Impact of COVID-19 on CPCA delivery of projects; and
- Climate Change.

[To discuss and note]

Other Matters

We have also included some sector news in Appendix B which highlights some of the current issues being faced in the sector and the areas that the Combined Authority may wish to consider. **[To note]**

2 Reports

2.1 Summary of final reports being presented to this committee

This section summarises the reports that have been finalised since the last meeting. The executive summaries for these reports have been included as an appendix to this document.

Assignment	Opinion issued	Actions agreed		
		L	M	H
2020/21 Internal Audit Plan				
Risk Management 1.20/21 Our review found that the organisation was making some good progress towards embedding its risk management processes. This has primarily been driven by the introduction of the Risk Management Strategy and the development of various levels of risk registers, some of which are still under development. The control framework does, however, require strengthening to ensure that all areas of risk can be consistently managed, reviewed and reported. We noted that the Authority was yet to undertake detailed risk management training, specifically in ensuring risks are clear and mitigation plans and actions are specific, measurable, achievable, realistic and time relevant (SMART). This was reflected through our review in that we noted two risk registers were yet to be fully completed and that the remaining risk registers we reviewed were not consistent in design with specific risks and SMART mitigation plans and actions. In addition, we noted the Authority does not capture evidence of the review and scrutiny of the Corporate Risk Register at an Executive level and is yet to implement a reporting framework for risk registers below the Corporate level. We further noted that risk escalation was done at the discretion of risk owners and therefore could be subjective and inconsistent. We also found that minimum frequencies for the review of risks have not been formally documented and noted that as the organisation takes positive steps towards its compliance with the new risk management strategy and processes, it would be equally important to link assurances to the individual risks to provide insight into the management of organisational risk.	Partial Assurance 	1	7	0

Assignment	Opinion issued	Actions agreed		
		L	M	H
Whilst we note some improvements and progress during the year, it is evident that further work is still required to ensure a fully robust and effective risk management framework is in place across the Authority. The actions identified during our review will further embed the organisations risk management culture and controls which are planned to be driven by the Corporate Management Team. We propose to undertake a follow up review at the end of the financial year to determine progress made in implementing the agreed actions, which will inform our year end opinion.				

Appendix A – Progress against the internal audit plan

Assignment and Executive Lead	Status / Opinion issued	Actions agreed L	Actions agreed M	Actions agreed H	Target Audit Committee	Actual Audit Committee
Risk Management (1.19/20)		**1**	**7**	**0**	**January 2021**	**January 2021**
Key Financial Controls – Accounts Payable	Fieldwork ongoing	0	0	0	Was January 2021, now April 2021	
Appointments to Boards and Committees sponsored by the Combined Authority	8 February 2021	0	0	0	April 2021	
Climate Change	15 February 2021	0	0	0	April 2021	
Grant Verification - Additional Dedicated Home to School and College Transport	8 March 2021	0	0	0	April 2021	
Follow Up	8 March 2021	0	0	0	April 2021	
Impact of COVID-19 on CPCA delivery of projects	22 March 2021	0	0	0	July 2021	
IT Controls Assessment	March 2021 - TBC	0	0	0	July 2021	

Appendix B – Other matters

Changes to the audit plan

There have been no changes to the Audit Plan since the previous meeting.

Information briefings

We have appended to this report the following briefings for information:

- Cyber security risk – Remote Working and New Challenges; and
- Audit and Risk Committees – Navigating COVID-19.

Sector Updates

Investment needed to protect and improve local services

The Local Government Association (LGA) has used its submission to set out the need for the Chancellor to use the Comprehensive Spending Review to provide an additional £10.1bn per year in core funding to councils in England by 2023/24. Councils will face a funding gap of more than £5bn by 2024 to maintain services at current levels. The LGA's submission to the Treasury shows how with the 'right powers, sustainable funding, and enhanced flexibilities councils can continue this vital work and ensure communities are able to prosper in the future.'

High needs funding arrangements

The Education and Skills Funding Agency (ESFA) has published information for local authorities and institutions about high needs funding arrangements for the 2021 to 2022 financial and academic year.

£30m boost to help unlock land for new homes

Cabinet Office Minister, Lord Agnew, has announced that the government is boosting its Land Release Fund (LRF) and the One Public Estate (OPE) programme with an additional £30m. The LRF, which targets small sites with a focus on supporting SME builders, will offer councils the opportunity to bid for £20m for remediation works and infrastructure to bring their surplus sites forward for housing. It is currently supporting 73 council projects which are on track to release land for more than 6,000 homes by next March.

The OPE programme will provide £10m, supporting the earliest stages of development. New and existing partnerships will be able to bid for practical support to deliver ambitious property programmes in collaboration with central government and other public sector partners, which deliver homes, jobs, efficiencies and improved public services.

Appendix C - Key performance indicators (KPIs) for 2020/21 delivery

Delivery				Quality			
	Target	Actual	Notes (ref)		Target	Actual	Notes (ref)
Audits commenced in line with original timescales following scoping	Yes	100%		Conformance with PSIAS and IIA Standards	Yes	Yes	
Draft reports issued within 15 days of debrief meeting	100%	100%		Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	Yes	
Management responses received within 15 days of draft report	100%	0%	*	Response time for all general enquiries for assistance	2 working days	100%	
Final report issued within 3 days of management response	100%	100%		Response for emergencies and potential fraud	1 working days	N/A	

Notes

* Our first draft report was issued on 11 December 2020 however, due to a combination of the Christmas break responses were not received within 15 days of the draft report.

FOR MORE INFORMATION CONTACT

Daniel Harris – Head of Internal Audit

Email: Daniel.Harris@rsmuk.com

Telephone: 07792 948767

Jay Desai – Manager

Email: Jay.Desai@rsmuk.com

Telephone: 07436 268278

rsmuk.com

Cyber security risk

Remote working and new challenges

Unfortunately in times of uncertainty criminals will try to exploit vulnerability and confusion. As such we are seeing increases in cyber crime particularly utilising common social engineering techniques such as phishing, whaling and ransomware.

What is phishing?

Phishing is when multiple individuals are targeted by a single scam. Typically, a blanket email is sent in the hope that some will reply with sensitive information, transfer funds or open rogue links or attachments.

What is whaling?

Whaling targets a small group of individuals, usually senior executives or individuals who can authorise funds transfer. Typically a hacker will pose as a senior official and request personal information, bank detail changes or a large funds transfer.

What is ransomware?

Ransomware is when hackers gain unauthorised access to a network and system and take it over. They hold an organisation to ransom by blocking system access until a substantial payment is made.

What challenges are organisations facing during Covid that make these threats more of a risk?

- Increased number of people are working from home and outside of normal working hours.
- Employees are using their own home IT infrastructure and in some cases personal email addresses.
- Employees could be printing and downloading commercially sensitive or personal data locally.
- Employees could be less vigilant and distracted given they are not in the office.
- Security on personal equipment and devices may not be as robust as office based infrastructures and networks.
- Cyber criminals are using Covid as a means of luring individuals into accessing sites and links.

What safeguards can organisations put in place against cyber risk?

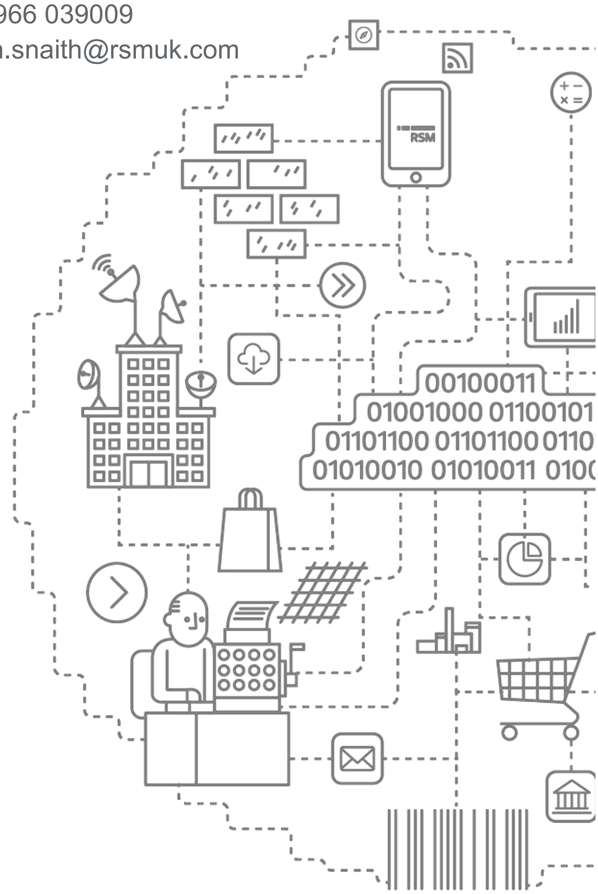
- Awareness and education is key – remind all users / employees of the IT security policy, what it covers and where to find it. This should include how to escalate concerns and incident reporting.
- Ensure all employees have completed the most up to date cyber awareness training. Run remote refresher training sessions.
- Consider running a covert phishing/whaling exercise whilst people are working at home to expose any weaknesses in controls and awareness.
- Ensure all employees are using corporate equipment (laptops, phones, etc) with latest patches and anti-virus updates applied.
- Reiterate that personal or commercially sensitive data should not be printed, downloaded or saved onto unencrypted removable media devices.

- If users find any corporate devices are running slower than normal or application systems not operating as normal they should inform IT immediately.
- Remind users not to open links or download apps onto corporate devices.
- Remind users that when they are on a video conference there is a possibility that someone could be recording the event.
- If employees are utilising home WIFI, ensure it is adequately secured and shipped passwords have been changed.
- Remind users that social media groups between employees should be used professionally as a record/log is maintained of the entire chat history.
- If a data breach is suspected inform IT immediately.

For more information please contact:

Sheila Pancholi
Partner
Technology Risk Assurance
+44 7811 361638
sheila.pancholi@rsmuk.com

Steven Snaith
Partner
Technology Risk Assurance
+44 7966 039009
steven.snaith@rsmuk.com



www.rsmuk.com

Audit and Risk Committees: Navigating Covid-19

The Covid-19 outbreak has impacted us all, and affected every part of the public sector, in one form or another. At this time, and as we move forwards, the role of Audit and Risk committees is ever more vital.

Audit and Risk committees must support the board and accounting officer in several ways; including in the areas of risk management, governance, and the control environment.

Very few organisations could have predicted that the Covid-19 pandemic would manifest as it has done. And organisations have had to move quickly to respond. In practice this has led to marked changes in risk appetite and often to significant changes in the control environment and governance arrangements.

Within this briefing we look more closely at these areas, with direct reference to the National Audit Office's (NAO) 'Guide for audit and risk committees on financial reporting and management during COVID-19.'

A changed environment

The control environment will no doubt have changed during the pandemic and there may well be some longer lasting changes to working practices, such as for example, an increase in remote working as part of the new "business as usual".

Audit and Risk committees will therefore need to understand areas where previous controls are no longer able (or appropriate) to operate in this new environment, leading, potentially to new areas of risk. This may include for example, IT systems which may not have the capacity for organisation-wide remote working or changes to the way in which control functions are actually performed.

During the pandemic the organisation's risk appetite could have also changed, through necessity and at pace, again potentially impacting upon the controls in place as well as the need for new controls.

In its guidance the NAO is clear that it expects 'organisations to consider their risk assessments when making changes to their internal controls, enhancing and prioritising the critical controls needed to reduce the risk of fraud or error.'

Assurance on risk management, governance and the control environment

Audit and Risk committees will need to be sure that any changes in controls are both sustainable and that controls, both new and old, are operating in the correct manner.

First and second line assurance is important in understanding operating practices and the related changes that have been and / or remain in place, and particularly in capturing any learning.

Independent and objective assurance from Internal Audit allows the organisation to ensure that any amended or new internal controls occasioned by these changes are properly designed and are being implemented effectively.

Questions Audit and Risk committees could ask

The NAO poses several questions for Audit and Risk committees to consider including:

- 'Were any changes needed to the design and implementation of internal controls to respond to COVID-19?'
- 'Has internal audit assessed the design, implementation and operational effectiveness of revised internal controls?'
- 'Can the negative impact of any changes be reversed?'
- 'Where changes were made to controls, did the organisation understand where there was increased risk because of this?'
- 'Has remote working affected the operational effectiveness of internal controls?'
- 'How have IT services performed during the outbreak?'
- 'Where service organisations are used, have there been any changes to the design and implementation of their controls?'
- 'Have the provisions in Procurement Policy Note 02/2020 been used by management?'

The above questions form a useful basis for Audit and Risk committees to understand how the control environment may have changed, new risks that are being faced and to understand and assess how governance processes are now operating especially where many of these, from necessity, operate on a remote basis.

Reporting and learning

The NAO is clear that more detailed reporting on the Covid-19 outbreak will be required within the 2020-21 reporting period. Each organisation will clearly be operating within its distinct set of circumstances and areas of service delivery.

Capturing learning will also be important, but as new strategies and operating models develop, organisations will need to maintain the fundamentals of governance, internal control and risk management and be assured that this is the case.

For further information contact

Mark Jones

Head of Internal Audit, RSM

M: 07768 952 387

CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY

Risk Management

Internal audit report: 1.20/21

FINAL

15 January 2021

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

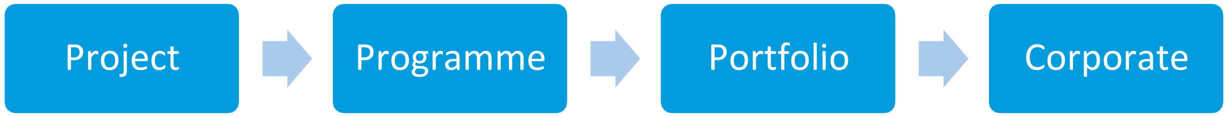
1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by you, we have been able to sample test, or complete full population testing using data analytics tools.

Why we completed this audit

An audit of risk management was undertaken as part of the approved 2020/21 internal audit plan to review the risk management in place to identify, monitor and manage risks threatening the achievement of the organisation's objectives.

The Authority implemented a revised Risk Management Strategy in January 2020 which was developed by the Transport Programme Coordinator. The organisation is focusing on embedding this throughout the organisation, having implemented new levels of risk registers. The Strategy consists of four levels of risk register, which are shown within the diagram below. The primary organisational risk register is the Corporate Risk Register, which is presented to the Authority's Audit and Governance Committee on a regular basis. Sitting beneath the Corporate Risk Register is the Portfolio Risk Register that holds risks on a portfolio level. There are four portfolios within the Authority; Housing, Business and Skills, Corporate Services and Transport and Strategy, however Transport and Strategy manage their risks on Programme Risk Registers. The Programme Risk Registers contain risks that have common attributes across multiple projects and that may affect the delivery of such projects. Project Risk Registers are specific to each individual project. At the time of our audit, the Authority had 37 active projects.



Risks are categorised as Red, Amber or Green risks.

- Green – residual score between 1 and 4 - Can be 'Accepted' and may not require action plans.
- Amber – residual score between 5 and 10 - Require action plans and / or to be closely monitored as appropriate.
- Red – residual score between 15 and 25 - Require action plans and / or to be closely monitored as appropriate.

Conclusion

Our review found that the organisation was making some good progress towards embedding its risk management processes. This has primarily been driven by the introduction of the Risk Management Strategy and the development of various levels of risk registers, some of which are still under development. The control framework does, however, require strengthening to ensure that all areas of risk can be consistently managed, reviewed and reported.

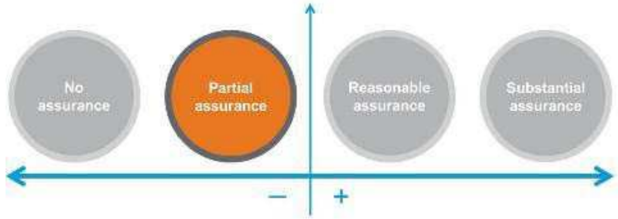
We noted that the Authority was yet to undertake detailed risk management training, specifically in ensuring risks are clear and mitigation plans and actions are specific, measurable, achievable, realistic and time relevant (SMART). This was reflected through our review in that we noted two risk registers were yet to be fully completed and that the remaining risk registers we reviewed were not consistent in design with specific risks and SMART mitigation plans and actions. In addition, we noted the Authority does not capture evidence of the review and scrutiny of the Corporate Risk Register at an Executive level and is yet to implement a reporting framework for risk registers below the Corporate level. We further noted that risk escalation was done at the discretion of risk owners and therefore could be subjective and inconsistent.

We also found that minimum frequencies for the review of risks have not been formally documented and noted that as the organisation takes positive steps towards its compliance with the new risk management strategy and processes, it would be equally important to link assurances to the individual risks to provide insight into the management of organisational risk.

Whilst we note some improvements and progress during the year, it is evident that further work is still required to ensure a fully robust and effective risk management framework is in place across the Authority. The actions identified during our review will further embed the organisations risk management culture and controls which are planned to be driven by the Corporate Management Team. We propose to undertake a follow up review at the end of the financial year to determine progress made in implementing the agreed actions, which will inform our year end opinion.

Internal audit opinion:

Taking account of the issues identified, the Board can take partial assurance that the controls upon which the organisation relies to manage this area are suitably designed and consistently applied. Action is needed to strengthen the control framework to ensure this area is effectively managed.



Key findings

Throughout our review we identified the following weaknesses:

Guidance and Training

We reviewed the Risk Management Strategy and noted that although information on mitigation and risk controls were included, the Strategy did not include guidance on ensuring mitigations and controls were SMART.

We also reviewed the All Team Meeting Risk Workshop presentation dated July 2020 and noted that the workshop provided an overview of recording and reviewing risks, however, it did not provide guidance on how risks and mitigation plans and actions should be recorded in the register and that they should be SMART. This aligns with our findings in management action four in section two of this report. **(Medium)**

Risk Register Completeness

We reviewed the Corporate Services Portfolio Risk Register and Strategy Programme Risk Register and noted that both registers were incomplete. We were advised that the organisation was aware of this and was working to ensure that these risk registers are fully populated.

There is a risk that without ensuring portfolio risk registers are complete, with risks including mitigation plans and actions and scored appropriately, that the Portfolio does not have sufficient oversight of its risks and therefore cannot manage them effectively. **(Medium)**

Risk Register Content

We noted through our sample testing of the four risk register levels, exceptions that could be categorised into key themes. This included that risk causes and effects were not consistently specific in defining what has caused the risk, and subsequently how the risk materialising would affect the Authority. There is a greater chance of the risk materialising if the cause and effect of risks are not clearly defined.

We also noted that mitigation plans designed to define the current controls in place did not always clearly demonstrate how the controls in place have mitigated the risk down to the residual risk score. For example, for Risk 7 on the Corporate Risk Register relating to Brexit, it was not clear how the controls in place reduced the impact of Brexit on the organisation's Growth Ambition Programme from an inherent risk score of 16 (4 x 4 – red risk) with 'likely' likelihood and 'major' impact to a residual risk score of four (2 x 2 – green risk) with 'unlikely' likelihood and 'marginal' impact. We also noted that as per the Risk Management Strategy, this risk could be 'Accepted' and may not require action plans, which does not appear to be the appropriate treatment for such a risk.

We also found through review of the varying risk registers that mitigation actions to define the future plans required to mitigate the risks were not consistently applied and were not documented in a SMART format. We also found that progress against future actions was not being clearly and consistently recorded.

There is a risk that if mitigation plans do not clearly define how controls currently in place are managing the risk, the organisation may not be fully assured that the risk is being effectively managed and that the residual risk scoring is representative of the status of the risk.
If SMART mitigation actions are not clearly defined, there is a risk of slippage against actions required to manage the risk which may lead to a greater chance of the risk materialising.

Finally, we noted that four of the five Project Risk Registers reviewed did not record inherent risk scores. We noted that just one risk score was used throughout each of the four Project Risk Registers we sampled. There is a risk that the effectiveness of controls in reducing risks from inherent scores to residual scores is not demonstrated at a project level. This may lead to difficulty in determining whether risk scoring is accurate which could lead to a greater chance of the right actions and controls being put in place and ultimately in risks materialising.
(Medium)

Risk Review Frequency and Risk Appetite

<u>Risk Review Frequency</u>

We noted through review of the Risk Management Strategy that it did not set out the minimum risk review frequency for each type of risk. We did note the positive observation that the risk matrix had been designed so that a risk of 'monumental' impact (1), even with a 'rare' (1) likelihood, was classed as an amber risk, with the requirement for the risk to have action plans developed and to be closely monitored as appropriate. Without, however, the minimum frequency for risk review being set and formally documented, there is a greater chance of risks materialising due to regular reviews not taking place.

<u>Risk Appetite</u>

We noted that the Relationship between Risk and Change Control document was in draft and not in use at the time of the audit but confirmed through review of papers for the 27 November 2020 Audit and Governance Committee that the paper requested the Committee recommend the adoption of the proposed document to the Combined Authority.

We noted that the proposed process for setting the risk appetite was focussed on projects and business cases and used financial cost as its sole measure to set the risk appetite (in monetary value). We noted that without a wider concept and definition of the organisation's risk appetite including all types of risk, it may be difficult for the organisation to understand where a risk on the corporate risk register, for example, has exceeded the risk appetite in areas such as reputational, compliance or regulatory risk.

The widening of this concept of risk appetite will ensure that all types of risks can be assessed against the risk appetite, not solely those relating to business cases and projects. Following this, the mechanism for review of risks to ensure that they remain within the organisation’s risk appetite should also be documented. Where these areas relating to risk appetite are not documented and in operation, there may be a greater chance of risks materialising. **(Medium)**

Reporting Framework

<u>Corporate level</u>

We reviewed the July and draft October 2020 Audit and Governance Committee meeting minutes and confirmed that the Corporate Risk Register had been received and reviewed. We did, however, note that the Risk Management Strategy stated that the Audit and Governance Committee has the responsibility of reviewing the Corporate Risk Register, together with progress of mitigating actions and assurances. We noted that as progress of mitigating actions and assurances are not documented in the Corporate Risk Register, the organisation is unable to clearly evidence how the Committee has fulfilled this particular duty.

We also noted through review of the Risk Management Strategy that the Combined Authority Management Team is responsible for review and scrutiny of the Corporate Risk Register at an Executive level. However, we were informed by the Authority that the Management Team do not have a Terms of Reference, neither are they supported by minutes or action logs and therefore we were unable to confirm that the forum’s risk management responsibilities had been formally defined and that the appropriate level of scrutiny at meetings was taking place.

<u>Portfolio, Programme and Project level</u>

We further noted through review of the Risk Management Strategy that the Authority has not developed a reporting framework for Portfolio, Programme and Project risk registers to ensure adequate scrutiny and oversight of risks at all levels throughout the organisation. We were advised that the focus is on ensuring risk registers are fully complete and accurate, after which a clear reporting framework will be implemented and documented. Where a regular framework for the reporting, review and challenge of risks is not operating and formally documented, there is a greater chance of risks materialising. **(Medium)**

Assurances

From review of the organisation’s various risk registers and through discussion with the Transport Programme Coordinator, we noted that the organisation does not currently link assurances to its risks (controls) to identify if their mitigation controls are working as intended. This can be used to further inform the risk scoring and understand if the risk is closer to materialising.

Without the organisation linking its risks to assurances the organisation cannot be assured that the mitigating controls are operating as intended and could result in risk materialising due a control not operating as intended. **(Medium)**

We noted the following controls to be adequately designed and operating effectively:

Risk Management Strategy

We reviewed the Risk Management Strategy and confirmed that it clearly defined the roles and responsibilities of key staff groups i.e. corporate risk owners, portfolio directors, programme and project risk owners and key governance forums eg Board, Audit and Governance Committee and Project Management Office stakeholders. We confirmed through review of the January 2020 Board meeting minutes that the Strategy was approved with further review required every three years. We confirmed through review of email correspondence that the Strategy was shared with all staff on 3 February after its approval and that the Strategy was available to staff through the Shared Drive.

Risk Management Methodology

We reviewed the Risk Management Strategy and confirmed that it defined the organisation's risk management methodology which consisted of a five-stage risk management cycle. We noted that compliance with the Strategy is monitored through the cycle and that it is the responsibility of the risk owner to ensure compliance. We noted through review of the Risk Management Strategy that risk identification processes had been noted including gap analysis brainstorming and various organisational analysis techniques such as SWOT and PESTLE. We also noted that the methodology defined how risks are assessed using a 5x5 likelihood and impact matrix and RAG rating to determine the severity of the risk.

Director Risk Workshop

We reviewed the Director Risk Workshop presentation, delivered at the end of 2019 and noted that it provided an overview of the new Strategy contents including risk scoring, risk register structure, roles and responsibilities and escalation. We were informed by the Transport Programme Coordinator that the Workshop was delivered to all members of the Combined Authority Management Team.

We have also agreed one 'low' priority management action, detailed further in section two, below.

Risk Management Questionnaire

We circulated a questionnaire to 45 individuals within the Authority to determine their thoughts on how risk management is being embedded. We received 29 responses, with 16 respondents being risk owners. Our findings are as follows.

We noted that our findings were largely positive with the exception of questions six and ten relating to risk management being well embedded within the organisation and risks being de-escalated when control have been applied.

With regards to question ten, 'risks are promptly de-escalated when controls have been applied' 12 respondents (41 per cent) responded that they didn't know and three (10 per cent) disagreed. This supports the management action agreed in this review to ensure that there is a consistent approach for risk escalation and de-escalation across the organisation.

With regards to question six, 'risk management is well embedded in the organisation' we noted that 14 respondents (48 per cent) either didn't know or disagreed with the statement. We appreciate that the organisation's risk management framework is relatively new, with the updated strategy being implemented in January 2020. We have agreed actions regarding the completeness of risk registers, implementing a review and reporting framework and ensuring further training is conducted to assist in ensuring risk management is well embedded in the organisation.

In addition to the above questions, we included a free-text response to allow respondents to elaborate on their findings. A summary of the responses can be found at Appendix B.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

1. Training				
Control	The Authority delivered a Risk Workshop based on the agreed Risk Management Strategy to an all team meeting in July 2020 to provide training on the new Strategy to staff. Whilst this covered risk management principles, training on the recording and management of risks in the risk register has not been delivered.		**Assessment:** **Design** **Compliance**	 × N/A
Findings / Implications	We reviewed the Risk Management Strategy and noted that although information on mitigation and risk controls were included, the Strategy did not include guidance on ensuring mitigations and controls were SMART. We also reviewed the All Team Meeting Risk Workshop presentation dated July 2020 and noted that the workshop provided an overview of the recording and review of risks, however, it did not provide guidance on how risks and mitigation plans and actions should be recorded in the register and that they should be SMART. This links in with our findings in management action four below. In addition, our risk management questionnaire identified through use of free-text comments that although training had taken place within the Authority, there was scope for further training to be carried out particularly around day-to-day management of risk. We noted that when respondents were asked if ‘I have had sufficient training with respect to my responsibilities for risk management’ a third of respondents (10 out of 29) either didn’t know or disagreed with the statement. There is a risk that without adequate guidance and training in place for risk owners, risks and mitigations are not captured and monitored as required, resulting in a greater chance of risks materialising.			
Management Action 1	We will ensure that there is appropriate training and guidance in place for risk and action owners to ensure risks and mitigation plans and actions are effectively identified, recorded and managed.	**Responsible Owner:** Corporate Management Team, to be led by CFO and MO	**Date:** 31 March 2021	**Priority:** Medium

2. Frequency of Risk Review and Risk Appetite		
Control	Risks are categorised as Red, Amber or Green risks by the Combined Authority. • Green – residual score between 1 and 4 - Can be 'Accepted' and may not require action plans. • Amber – residual score between 5 and 10 - Require action plans and / or to be closely monitored as appropriate. • Red – residual score between 15 and 25 - Require action plans and / or to be closely monitored as appropriate. The Risk Management Strategy does not set out the minimum frequency with which each type of risk (Red, Amber and Green) should be reviewed. The Strategy also does not currently document the organisation's risk appetite, although a separate Draft Relationship Between Risk and Chance Control Document is currently being produced to document this.	**Assessment:** **Design** × **Compliance** N/A
Findings / Implications	Minimum Risk Review Frequency We noted through review of the Risk Management Strategy that it did not set out the minimum risk review frequency for each type of risk. We did note the positive observation that the risk matrix had been designed so that a risk of 'monumental' impact (1), even with a 'rare' (1) likelihood, was classed as an amber risk, with the requirement for the risk to have action plans developed and to be closely monitored as appropriate. This is in line with best practice. Without, however, the minimum frequency for risk review being set and formally documented, there is a greater chance of risks materialising due to regular reviews not taking place. Risk Appetite We noted that the Relationship between Risk and Change Control document was in draft and not in use at the time of the audit but confirmed through review of papers for the 27 November 2020 Audit and Governance Committee that the paper requested the Committee recommend the adoption of the proposed document to the Combined Authority. Review of the draft document found that, with regards to risk appetite and tolerance, the document refers to each risk having a qualitative assessment of its likelihood and impact (as per the relevant risk scores recorded in the risk registers). It further explains that the organisation is moving towards an approach of documenting the risk treatment (accept, avoid, transfer or reduce) for each documented risk. Following the qualitative assessment and documenting of the risk treatment, the risk owner is responsible for providing an approximate financial value of each risk. As each risk is quantified throughout the lifetime of the project, the approximate financial implication of the project is calculated and may change. This is then to be assessed against the organisation's financial risk appetite. We noted that the process for setting the risk appetite was focussed on projects and business cases and used financial cost as its sole measure to set the risk appetite (in monetary value). We noted that without a wider concept and definition of the organisation's risk	

2. Frequency of Risk Review and Risk Appetite

	appetite including all types of risk, it may be difficult for the organisation to understand where a risk on the corporate risk register, for example, has exceeded the risk appetite in areas such as reputational, compliance or regulatory risk. The widening of this concept of risk appetite will ensure that all types of risks can be assessed against the risk appetite, not solely those relating to business cases and projects. The mechanism for review of risks to ensure that they remain within the organisation's risk appetite should also be documented. Where these areas relating to risk appetite are not documented and in operation, there may be a greater chance of risks materialising.			
Management Action 2	The Risk Management Strategy will be updated to include the minimum review frequency for each type of risk (Red, Amber and Green). This should include sufficient (at least annual) oversight over risks rated as monumental and rare. The organisation's concept of risk appetite will also be widened to include various types of risks apart from financial risk relating to business cases and projects. This risk appetite will be clearly documented in the Relationship between Risk and Change Control document along with the mechanism to ensure that risks are regularly reviewed to ensure they remain within the organisation's risk appetite.	**Responsible Owner:** Corporate Management Team, to be led by CFO and MO	**Date:** 31 March 2021	**Priority:** Medium

3. Incomplete Risk Registers

Control	The Authority has four levels of risk registers from the Corporate Risk Register to Project Risk Registers. The Corporate Services Portfolio Risk Register and Strategy Programme Risk Register are yet to be fully completed.	**Assessment:** **Design** **Compliance**	 × N/A
Findings / Implications	We reviewed the Corporate Services Portfolio Risk Register and noted that the register was incomplete. We noted that for the Corporate Services Register, of the 48 risks identified, 12 had not been provided with an inherent risk score and 13 were yet to be provided with a complete mitigation plan, actions and owners as well as a residual risk score. We reviewed the Strategy Programme Risk Register and noted that it was yet to be fully completed, with three of the 24 risks listed awaiting inherent risk scores. There is a risk that without ensuring risk registers are complete, with risks scored appropriately and mitigation plans documented, that the portfolio does not have oversight of all of its risks and therefore cannot manage them effectively.		

3. Incomplete Risk Registers				
Management Action 3	We will ensure that all incomplete risk registers are fully completed, inclusive of inherent and residual risk scores, mitigations and owners.	**Responsible Owner:** Corporate Management Team, to be led by CFO and MO	**Date:** 31 March 2021	**Priority:** Medium

4. Risk Register Content		
Control	The Authority has in place a Corporate Risk Register that defines risks identified at the organisational level. Beneath the Corporate Risk Register are the Portfolio, Programme and Project Risk Registers. For each register, each risk is allocated an ID, cause, event and effect. The Register also gives the risk an inherent score based on the impact and likelihood of the risk, with a mitigating plan, mitigating action and action owner. Risk owners are also assigned to each risk. The risk is subsequently scored a residual risk score. Mitigating actions are not assigned timeframes for completion.	**Assessment:** **Design** × **Compliance** N/A
Findings / Implications	We selected a sample of 10 risks from the Corporate Risk Register (Corporate level), 10 risks across the Corporate Services and Housing Portfolio Risk Registers (Portfolio level), 10 risks across the Transport Strategy and Delivery Programme Risk Registers (Programme level), and 15 risks across five Project Risk Registers (Project level). We identified through our review of the four levels of risk register that exceptions could be categorised into key themes which we have listed below. <u>Specific Risk Cause and Effect</u> We noted through our review that the risk cause and effects were not consistently specific in defining what it is that caused the risk and subsequently how the risk materialising would affect the Authority. For example, we noted that for Delivery Programme Risk Register ID 11, Partner Delivery Capacity, the risk effect was noted as 'reduced teams due to critical delivery redeployment' which does not provide detail as to the specific effect of the risk on the Authority. There is a risk that if risks and risk effects are not clearly defined, there is a greater chance of the risk materialising. <u>Mitigation Plans and Actions</u> We noted through our review, that the use of mitigation plans designed to define the current controls in place and mitigation actions to define the future plans required to mitigate the risks were not consistently applied. We particularly noted that at Programme level, eight of the 10 risks were utilising the mitigation plans column as future mitigating actions and current controls in place were not featured on the register.	

4. Risk Register Content

We also noted that mitigation plans detailing the current controls in place did not always clearly demonstrate how the controls in place have mitigated the risk down to the residual risk score. For example, for Risk 7 on the Corporate Risk Register relating to Brexit, it was not clear how the controls in place reduced the impact of Brexit on the organisation's Growth Ambition Programme from an inherent risk score of 16 (4 x 4 – red risk) with 'likely' likelihood and 'major' impact to a residual risk score of four (2 x 2 – green risk) with 'unlikely' likelihood and 'marginal' impact. We also noted that as per the Risk Management Strategy, this risk could be 'Accepted' and may not require action plans, which may not be the appropriate treatment for such a risk.

We also found through review of the varying risk registers that mitigation actions to define the future plans required to mitigate the risks were not consistently documented in SMART format. Whilst we noted that at Project level, nine of our sample of 15 risks had identified a mitigation action due date, in all cases this was out of date with little evidence of review maintained. We also found that progress against future actions was not being clearly and consistently recorded.

The organisation cannot be assured that the risk is being effectively mitigated and there is also a risk of actions to develop further controls to mitigate the risk not taking place in a timely manner. This may lead to a greater chance of the organisation's risks materialising.

<u>Risk Scores</u>

We noted that four of the five Project risk registers reviewed did not contain inherent and residual risk scores, they only contained the inherent risk score. There is a risk that the effectiveness of controls in reducing risks from inherent scores to residual risk scores is not demonstrated at project level. This may lead to difficulty in determining whether risk scoring is accurate which could lead to a greater chance of risks materialising.

<u>Training</u>

Supporting our findings, we noted that whilst the requirement for SMART actions was included within the Corporate Risk Register 'Example Risk Register' tab, we did note that the format of the Example Risk Register was not consistent to that used in the Corporate Risk Register, so detailed guidance was not in place for both the mitigation plan and mitigation action columns. There is therefore a risk that without adequate guidance and training in place for risk owners; risks and mitigations are not captured as required, resulting in a greater chance of the risk materialising. We have agreed a management action relating to training in management action 1 of this report.

Management Action 4	We will review the current risk registers in place to ensure that all risk events, cause and effects are clearly documented with inherent and residual risk scores. Risk scoring will be reviewed in the context of current controls and future plans to ensure they are an accurate representation of each risk. In addition, we will ensure that mitigation plans and actions are identified, recorded and are SMART. Progress against action plans will be clearly recorded and monitored.	**Responsible Owner:** Corporate Management Team, to be led by CFO and MO	**Date:** 31 March 2021	**Priority:** Medium

5. Risk Escalation Process				
Control	The Strategy identifies a number of risk identification processes including risk gap analysis and workshops and brainstorming. As reporting is not currently taking place at an operational level, there is no evidence of new and emerging risks being considered. The Strategy documents what the escalation process is between project, programme, portfolio and corporate risk registers. The responsibility lies with the risk owner to promote the risk to the next level. The Strategy does not define the process for the de-escalation of risks.		**Assessment:** **Design** **Compliance**	 × N/A
Findings / Implications	We noted through review of the Risk Management Strategy that risk identification processes had been noted including gap analysis brainstorming and various organisational analysis techniques such as SWOT and PESTLE. However, we noted through our review that, as reporting at an operational level is not documented and recorded throughout the Authority, we were not able to confirm that new and emerging risks are being considered. We also noted through review of the Strategy, that escalation of risks is at the discretion of the risk and action owners. We noted through our review of the Portfolio, Programme and Project risk registers that a column was included noting if escalation was required. Two risks on the Housing Portfolio risk registers were marked as requiring escalation, however, they were not present on the Corporate Risk Register. We were advised that these had been recently marked for escalation and were planned to be presented at the November 2020 meeting of the Audit and Governance Committee to consider whether escalation to the Corporate Risk Register was required. We further noted through review of the Risk Management Strategy that there was no defined process for the de-escalation of risks once controls had been applied. Supporting our finding, we noted in our risk management questionnaire that of 29 respondents, 12 responded with 'don't know' and three with 'disagree' when asked if 'risks are promptly de-escalated when controls have been applied'. We also corroborated our findings with the results from the risk management questionnaire and noted that eight of 29 respondents either disagreed with or did not know if roles and responsibilities for risk management had been well defined. There is a risk that if escalation and de-escalation of risks is solely at the discretion of risk and action owners, application of the escalation model may be subjective and inconsistently applied. The Authority should consider, in addition to the existing control of risk owner judgement, the use of risk scoring criteria to provide a consistent level at which risks are considered for escalation and de-escalation through the risk register structure.			
Management Action 5	We will consider, in addition to the existing control of risk owner judgement, the use of set levels of risk scores to identify risks to be considered for escalation and de-escalation.	**Responsible Owner:** Corporate Management Team, to be led by CFO and MO	**Date:** 31 March 2021	**Priority:** Low

6. Scrutiny of Risk Registers			
Control	Strategic Risks in the Corporate Risk Register should be reviewed monthly by the Combined Authority Management Team. The Corporate Risk Register should also be reviewed on a quarterly basis by the Audit and Governance Committee. The organisation has not developed a reporting framework for Portfolio, Programme and Project risk registers to ensure adequate scrutiny and oversight of risks at all levels throughout the organisation.	**Assessment:** **Design** × **Compliance** N/A	
Findings / Implications	**<u>Monitoring arrangement for the Corporate Risk Register</u>** <u>Audit and Governance Committee</u> We reviewed the July and draft October 2020 Audit and Governance Committee papers and confirmed that the Corporate Risk Register had been received at each meeting. We noted that risks were presented in order of RAG and that one risk regarding climate change was requested by members to be included on the register. However, we noted that the Risk Management Strategy stated that the Committee has the responsibility of reviewing the Corporate Risk Register together with progress of mitigating actions and assurances. We noted that as progress with mitigating actions and assurances are not documented, the Committee has not been able to fulfil its duties with regards to risk management. <u>Combined Authority Management Team</u> We noted through review of the Risk Management Strategy that the Combined Authority Management Team is responsible for review and scrutiny of the Corporate Risk Register at an Executive level. However, we were informed by the Authority that the Management Team do not have a Terms of Reference, neither are they supported by minutes or action logs and therefore we were unable to confirm that the forums risk management responsibilities had been formally defined and that the appropriate level of scrutiny at meetings was taking place. **<u>Monitoring arrangements for Portfolio, Programme and Project Registers</u>** We noted that the Authority has not developed a fully operating reporting framework for Portfolio, Programme and Project risk registers to ensure adequate scrutiny and oversight of risks at all levels throughout the organisation. We were advised that the focus is on ensuring risk registers are fully complete and accurate, after which a clear reporting framework will be implemented and documented. Where a regular framework for the reporting, review and challenge of risks is not operating and formally documented, there is a greater chance of risks materialising		

Management Action 6	We will evidence scrutiny of the Corporate Risk Register at executive level. This could be in the form of minutes, action notes or progress notes retained on the risk register.	**Responsible Owner:** Corporate Management Team, to be led by CFO and MO	**Date:** 31 March 2021	**Priority:** Medium

6. Scrutiny of Risk Registers				
Management Action 7	Once the risk registers have been completed at all levels, we will ensure that an appropriate risk monitoring framework is formally documented and implemented. This will include Terms of References for governance forums that have risk management responsibilities.	**Responsible Owner:** Corporate Management Team, to be led by CFO and MO	**Date:** 31 March 2021	**Priority:** Medium

7. Assurances			
Control	The organisation does not link assurances to its risks (controls) to identify if their mitigation controls are working as intended. Linking assurances to risks and their associated controls would support the organisation in determining if the controls are operating effectively and helping to manage the risk(s).	**Assessment:** **Design** **Compliance**	 × N/A
Findings / Implications	From review of the organisation's various risk registers and through discussion with the Transport Programme Coordinator, we noted that the organisation does not currently link assurances to risks (controls) to identify if their mitigation controls are working as intended. This can be used to inform the risk scoring and understand if the risk is closer to materialising. For example, for a risk relating to the achievement of the financial budget, an associated control may be that financial reporting is taking place at the Finance Committee each period. The assurance for this control would be the outcome of the last period of reporting. If the last report shows that the income and expenditure is in line with the budget, this indicates positive assurance and may indicate that there is a reduced chance of the risk materialising, which may impact the residual risk score. Conversely, if the financial performance is significantly over budget, this indicates negative assurance for the financial reporting control and may indicate the need for the risk score to be increased and/or additional controls or actions to be introduced. Without the organisation linking its risks to assurances the organisation cannot be assured that the mitigating controls are operating as intended and could result in risk materialising due a control not operating as intended.		

Management Action 8	Once the organisation has fully embedded its risk management, reporting and review arrangements, it will consider utilising assurances to assist in the review and accurate scoring of risks.	**Responsible Owner:** Corporate Management Team, to be led by CFO and MO	**Date:** 31 March 2021	**Priority:** Medium

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
Risk Management	7	(9)	0	(9)	1	7	0
Total					**1**	**7**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: QUESTIONNAIRE RESULTS

We circulated a questionnaire to 45 individuals within the Authority to determine their thoughts on how risk management is being embedded and we received 29 responses. 12 respondents provided comments to their answers and we have provided a summary of the responses below.

Are there any other comments you would like to make about the risk management culture at your organisation?
Positive Comments • The risk culture has continued to evolve and develop over the last 12 months and is continuing to do so. • Improvement in risk management can be seen across the Authority. • Senior management provide good leadership in terms of risk management and actively encourage risks to be raised and discussed. • The CPCA Risk Management Strategy and 10 Point Guide are useful.
Potential Areas for Improvement • Risk register training has been received, however more training on how risks are expected to be managed on a day to day basis would be appreciated. • The Corporate Risk Register is discussed, however there could be further risk discussions at a team level to ensure wider engagement. • Risk management is not yet a routine across the Authority. • Departmental risks are not communicated across departments and so a risk management/crisis communications plan cannot be implemented. • Risk management processes are in place however using them well will be the next steps.

APPENDIX C: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following risks:

Objective of the area under review
To review the effectiveness of risk management and assurance arrangements in place to identify, monitor and manage risks threatening the achievement of the organisation's objectives.

1.1 Scope of the review

The following areas will be considered as part of the review:

- A Risk Management Strategy has been developed by the organisation and agreed by the Board;
- The Risk Management Strategy clearly defines the Authorities risk appetite, methodology and scoring criteria as well as the processes in place to ensure that they are complied with;
- The provision of risk management training to all relevant staff members with risk management responsibilities;
- The presence and completion of project, programme, portfolio and corporate risk registers (including controls, mitigations and identified actions in risk registers) which are clear, specific, adequately worded and unambiguous. We will assess the quality of information within the registers
- The cause and effect of each risk is clearly documented within the risk registers. Each risk has an inherent and current risk score;
- Responsibility for each risk has been assigned to an accountable person with the appropriate delegated authority to manage the risk;
- Processes are in place to identify and assess risks at the operational level and escalate them to the appropriate level;
- Processes have been established to ensure that new and emerging risks are shared at an operational and strategic level;
- Arrangements for the reporting, scrutiny and discussion of risk registers at each level; and
- Review of how assurances are utilised to confirm that controls are effectively operating to mitigate key risks.

We will utilise a risk management culture questionnaire as part of our audit approach to gauge the views of staff throughout the organisation on the effectiveness of risk management arrangements in place.

The following limitations apply to the scope of our work:

- The scope of this review is limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review above.
- This review will not comment on whether individual risks are appropriately managed, or whether the organisation has identified all of the risks and opportunities facing it.
- We will not conduct any testing to verify the outcome of any assurances received.
- We do not endorse a particular means of risk management.
- It remains the responsibility of senior management to agree and manage information needs and to determine what works most effectively for the organisation.
- The results of our work are reliant on the quality and completeness of the information provided to us.
- Our testing will be compliance based and sample testing only.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held	3 December 2020	**Internal audit Contacts**	**Daniel Harris, Head of Internal Audit** Daniel.Harris@rsmuk.com 07792 948767 **Jay Desai, Manager** Jay.Desai@rsmuk.com 07436 268278
Draft report issued	11 December 2020		
Responses received	15 January 2021		
Final report issued	15 January 2021	**Client sponsor**	Robert Parkin, Chief Legal Officer (Monitoring Officer)
		Distribution	Robert Parkin, Chief Legal Officer (Monitoring Officer) Dermot Pearson, Solicitor Francesca Houston, Transport Programme Coordinator Susan Hall, Governance Assistant Anne Gardiner, Scrutiny Officer

rsmuk.com

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY | JAMES PALMER CAMBRIDGESHIRE & PETERBOROUGH MAYOR

Agenda Item No: 6

Report title: Review of Corporate Risk Register & Risk Management Strategy

To:	Audit and Governance Committee
Meeting Date:	29 January 2021
Lead Member:	Mayor James Palmer
From:	Robert Parkin Monitoring Officer
Key decision:	No
Recommendations:	The Audit and Governance Committee is recommended to: a) Review the Combined Authority's Corporate Risk Register (Appendix 1) b) Review the Corporate Risk Management Strategy (Appendix 2) c) Request that the Monitoring Officer bring a report back to this committee proposing any changes to the Risk Management Strategy and Corporate Risk Register arising out of the report of the internal auditor on Risk Management d) Recommend any proposed changes to the Corporate Risk Register to be reported to the next Combined Authority Board meeting for approval. Voting arrangements: A simple majority of all Members.

1. Purpose

1.1 The Audit and Governance Committee's terms of reference include monitoring the Combined Authority's risk management arrangements including the risk register.

1.2 This report provides the Committee with the Corporate Risk Management Strategy and an update on the Corporate Risk Register.

1.3 In the interests of good governance, the Committee is requested to review the Corporate Risk Management Strategy and Corporate Risk Register and suggest any changes they would like to put forward as a recommendation to the Combined Authority Board.

2. Background

Corporate Management Risk Strategy

2.1 The current Corporate Risk Management Strategy was adopted by the Combined Authority in January 2020 and forms Appendix 2 to this report. The report, prepared by the Combined Authority's internal auditor RSM, and referred to in item 5, makes suggestions as to improvements in the strategy (including, for example, the use of SMART mitigations and controls), the current strategy is attached as appendix 2 to this report and it is proposed that it be reviewed, taking into account the comments of the internal auditor.

Corporate Risk Register

2.2 The Corporate Risk Register is populated by reference to individual project risk assessments and over-arching corporate risks.

2.3 The Corporate Risk Register is reviewed by the Corporate Management Team, any risks which arise, or which become more significant between their meetings are escalated to the next Director's meeting.

2.4 The same risk register template and terminology are used by all Project Managers during the reporting process for each project. Any risks that score over the agreed threshold on an individual project register will then also appear on the main risk register so that it can be monitored accordingly. Again, the report of the internal auditor on risk includes some recommendations around the corporate risk register.

Significant Implications

2.5 Covid -19 Pandemic Risk ID's – 14, 16 and 19

Despite the country entering a new lockdown it was felt that this did not have a significant impact to the two risks ID 16 and ID 19 which considered the short term impacts and long term impacts on the Combined Authority objectives; there were new business support grants which the Combined Authority would be using to help local businesses as had been done during the previous lockdown and therefore the ratings for these two risks remained unchanged.

Risk ID 14 - Covid -19 A –which considered the potential disruption to the operation of the Combined Authority due to possible increasing numbers of staff absences has had its likelihood rating increased to Moderate to reflect the high infection rate of the new variant of the Covid 19 virus. The overall risk rating is now 12 and RED.

2.6 Risk ID 21 – MHCLG review of £100m Housing Programme

As the deadline for the housing programme is fast approaching the likelihood of the risk has been increased to Likely – making the overall rating 12 and RED.

2.7 Risk ID 1 - External delivery partners unable to deliver on agreed commitments to CPCA projects

Constituent Councils were currently reviewing their budgets and some may be in a position where they would not be able to enter into new contracts with CPCA going forward due to financial pressures. However, the CPCA could seek alternative options from central government for loans of projects if the district councils were no longer in a position to provide this service. To reflect this the rating for Risk ID 1 had been changed with the likelihood increased to Moderate and the Impact to Major, making the overall risk rating 12 and RED.

2.8 A risk has been escalated from the Directorate for Delivery and Strategy register to the Corporate Risk register (Risk ID 22).

3. Financial Implications

3.1 All of the work has been carried out in-house, therefore there are no significant financial implications to this activity.

4. Legal Implications

4.1 No significant legal implications.

6. Appendices

6.1 Appendix 1 – Corporate Risk Register

6.2 Appendix 2 – Corporate Risk Management Strategy

6.3 Appendix 3 – Corporate Risk Heat Map

Corporate Risk Register

Risk ID	Date Identified	Cause(s)	Risk Event	Effect(s)	Risk Type	Risk Status	Risk Proximity	Likelihood (1-5)	Impact (1-5)	Inherent RAG score Total	Date Last Review	Mitigation Plan (Current Controls)	Mitigation Action (New Controls)	Action Owner	Date Action Closed	Likelihood (1-5)	Impact (1-5)	Residual RAG score Total	Comments/Notes /Assumptions	Risk Owner	Escalation Required?	Date Closed
16	01/03/2020	Covid-19 Pandemic (B)	Disruption of the delivery of the Combined Authority objectives in regard to the short term economic objectives	Economic impact of lockdown in response to Covid-19, may have implications for future government funding and for economic activity within the Combined Authority area in the short term.	Strategic	Open	Imminent	4	4	16	06/01/2021	Support to local businesses to weather the Covid-19 lockdown - in co-ordination with the constituent councils Following government guidelines and working with local resilience forum to plan the recovery and restoration of services. Additional budget announcements from govt.	Business Restoration and Business Recovery Groups Board reports - MTFP re-prioritisation towards economic recovery Membership of the SCG (Strategic Recovery Group) - weekly transport recovery group. Mayoral forum Chaired economic recovery group Local economic recovery strategy - will be implemented in October 2020 CSR (3 year) - submitted with Covid-19 mitigating asks.	Chief Executive		3	4	12		Chief Executive	N/A	
19	11/11/2020	Covid -19 Pandemic (C)	Disruption of the delivery of the Combined Authority objectives in regard to the long term economic objectives	Economic impact of lockdown in response to Covid-19, may have implications for future government funding and for economic activity within the Combined Authority area in the long term.	Strategic	Open	Imminent	4	4	16	06/01/2021	Support to local businesses to weather the Covid-19 lockdown - in co-ordination with the constituent councils Following government guidelines and working with local resilience forum to plan the recovery and restoration of services. Additional budget announcements from govt.	Business Restoration and Business Recovery Groups Board reports - MTFP re-prioritisation towards economic recovery Membership of the SCG (Strategic Recovery Group) - weekly transport recovery group. Mayoral forum Chaired economic recovery group Local economic recovery strategy - will be implemented in October 2020 CSR (3 year) - submitted with Covid-19 mitigating asks.	Chief Executive		5	2	10		Chief Executive	N/A	
20	11/11/2020	Potential impact of Brexit on delivery of the Combined Authority's Growth Ambition Programme (B)	Potential impact of Brexit on delivery of the Combined Authority's Growth Ambition Programme in the long term.	Potential financial uncertainty and economic instability leading to insufficient investment in priority projects in the long term.	Strategic	Open	Approaching	4	4	16	06/01/2021	Appointment of SRO to advise on BREXIT mitigation strategy and oversee implementation Appointment of INTERIM assistant to SRO to assist with strategy and implementation Engagement with Business Advisory Panel & Business Board to balance views of businesses Engagement with business organisation (FSB, CBI etc) stakeholders to augment resources	Monitoring of daily/weekly bulletins from MCHLG, BEIS, HMRC to ensure information is accurate and up to date, recognising funding streams relevant to need Engagement with LEP Network and CLGU on funding for additional resources. Monitor for possible impacts resulting from Brexit which develop slowly.	Director of Business & Skills [Brexit Lead]		1	2	2	Propose to close if impacts do not develop	Chief Executive	N/A	06/01/2021
8	01/09/2019	Absence of funding of historic ambitious and long stalled Programmes	Ambitious and long stalled programmes can not proceed due to lack of government funding and or private investment. The levelling up fund has been announced and provides a £4b opportunity for CPCA bid a list is being prepared.	There are major programmes that will require clear and innovative funding strategies if they are to progress. CPCA funding has been used to develop the feasibility and Strategic Outline Business Cases/Outline Business Cases for such schemes. CPCA funding is intended to act as a catalyst and an enabler in bringing these schemes forward.	Financial	Open	Close	3	3	9	06/01/2021	Work is progressing at developing the business cases. Stakeholders across the wider geography are working together to tackle the issues around the growth agenda. Getting Board agreement and matching resources will help get a coordinated approach to priorities and bidding for resources. Funding sources have been identified for key sources and CPCA resources allocated to move projects to those funding decisions. The funding for all projects listed in 'leveraged future schemes' appendix to the 20/21 MTFP will be considered within business cases which will be brought to the Board for	Strong budget process and funding allocation within CPCA MTFP and Business Plan Business Case approval by CPCA Board and Stakeholders Ongoing discussions with Whitehall departments about access to national funding programmes, such as LLM	Directors		3	3	9		Chief Finance Officer	N/A	
17	15/05/2020	Unbudgeted increases in cost for highways and transport schemes funded by the Combined Authority and delivered by partner agency	Unplanned significant increases in costs lead to requests for additional funding to the Combined Authority to enable schemes to proceed.	The unplanned increases in budget prejudice the Combined Authority's ability to manage its finances and could ultimately prejudice delivery of the Combined Authority's Business Plan and a balanced budget.	Financial	Open	Imminent	5	3	15	06/01/2021	Close working with delivery partners through best-practice project and programme management. Political and senior leadership engagement with partners to ensure effective communication, early warning, and timely and effective escalation of issues. Particular focus on the relationship between scheme design and cost at an early stage.	(I) Ensuring compliance with CPCA project management guidance (ii) Monthly project highlight reporting (iii) Monthly budget monitoring (iv) creation of a Transport Programme Board (v) stronger discipline around the composition and working of project boards for individual projects (v) regular project reporting to Board and Committees (vi) review of historic overruns to establish cause. (vii) updating project management guidance inline with audit recommendations e.g. Lancaster Way	Director of Delivery & Strategy		3	3	9		Chief Executive and Chief Finance Officer	N/A	
13	01/09/2019	First 5 Year Gateway Review of Gainshare Funding (Mar 2021)	Access to Gainshare funding called into question by the Gateway Review evaluation of Gainshare	The Combined Authority is unable to access Gainshare funding	Strategic	Open	Approaching	3	5	15	06/01/2021	Provision of persuasive evidence to the Gateway Review demonstrating the good management and value for money delivered through Gainshare funding. Processes are in place to allow a proven delivery record.	(i) Effective working with the evaluation contractors SQW (ii) provision of good evidence to the evaluation (iii) effective briefing of internal and external contributors to the review process (iv) the production of an impactful Complementary Report (v) collective CMT engagement in preparation for the review	CMT Members, Roberta Fulton, Mike		2	4	8		Director of Delivery & Strategy	N/A	
18	31/07/2020	Climate Change	Climate change related events, policies and political pressures e.g. policy designed to reduce carbon emissions that restricts growth	Unable to double GVA	Strategic	Open	Close	4	4	16	06/01/2021	CPCA funding an independent climate change commission to provide advice and recommendations on how to delivery Combined Authority ambitions and to achieve net-zero Strategic combined authority policies require business cases for the delivery of projects to be consistent with the net-zero ambition.	Supporting the independent climate change commission and implementing its recommendations in due course (Feb 2021) Widening the range of policy requirements on CA projects to be net-zero consistent Accommodation, travel and internal policies to reduce scope one & two emissions	All Directors		4	2	8		Chief Executive	N/A	
1	01/09/2019	External delivery partners unable to deliver on agreed commitments to CPCA projects	External delivery partners do not meet deadlines, budget or qualitative requirements of their agreements with the Combined Authority.	Projects are not delivered on time, budget, or to the required standard.	Strategic	Open	Imminent	4	3	12	06/01/2021	Close working with delivery partners through best-practice project and programme management. Political and senior leadership engagement with partners to ensure effective communication, early warning, and timely and effective escalation of issues.	(I) Ensuring compliance with CPCA project management guidance (ii) Monthly project highlight reporting (iii) Monthly budget monitoring (iv) Creation of programme boards to engage partners at senior level in managing larger areas of work (v) regular project reporting to Board and Committees (vi) minimising delivery partner risk on some projects by direct in-house contracting with the supply chain (vii) achieving increased clarity about roles and responsibilities in the partner landscape (viii) targeted Mayor-level political engagement with delivery partners on some projects (viiii) housing team to monitor changes to the market and potential impacts following this	CMT Members, PMO, Project Managers		3	4	12	CPCA to seek commitment for loans.	Director of Delivery & Strategy	N/A	
21	11/11/2020	MHCLG Review of £100m Housing programme	Up to £45m of Government funding not provided and change of end date of £100m Housing Programme from 31st March 2022 to 31st March 2021	£170m programme has shortage of anticipated capital and significantly reduced time and capability to deliver target of 2000 houses and the £100m programme within the £170m. Potential reputational damage to CPCA housing programme likely.	External	Open	Approaching	3	5	15	06/01/2021	Continued communication with BEIS & MHCLG about progress and outcome of review. Escalate for political intervention and provide information to substantiate case. Inform Committeee members and stakeholders. Prioritise and defer funding decisions with focus on achieving delivery targets by supporting those schemes with earliest starts on site.		Housing Director		4	3	12	**Mitigation implemented and escalated through political channels.**	Housing Director		
4	01/09/2019	Forthcoming elections	Changes in Political Management which could lead a change of priorities for CPCA	Impact on funding, contractual arrangements and investor confidence in the CPCA	Strategic	Open	Approaching	4	2	8	06/01/2021	Clarity around existing priorities and contractual obligations.	MTFP, Business Plan, Leaders Strategy meetings in light of the forthcoming elections.	Chief Executive		2	2	4	Elections whith result in changes in holders of office may result in programme or organisation review which could lead to changes in priorities of the organisation, but there are systems in place that are able to adapt to the change in	Chief Executive	N/A	
6	01/09/2019	Change in government policy around devolution (line needs reworking)	Lack of structural resilience / insufficient internal resources	Failure to maintain BAU due to the devolution white paper and known changes of transferring of the transport teams from PCC and CCC. Including changes in SLA requirements. Increase in subsidiary companies requiring increased employment to accelerate programmes e.g. CAM	Strategic	Open	Close	4	2	8	06/01/2021	Employed a strategy team to consider and report on the impacts. HR function to allow recruitment of additional transport function. Ensuring we have sufficient funding to allow employment.	The Directors meet weekly and are responsible for signing off recruitment to new posts The HR team has been increased to support the organisational structure and recruitment of candidates of calibre. There are staff dedicated to programme management with a system of monthly project highlight reporting. This enables Directors to move resources to higher risk projects. We are in the process of standardising documentation to create a single source of information which builds resilience in case of individual staff members	Chief Executive		4	1	4		Chief Executive	N/A	
7	01/09/2019	Potential impact of Brexit on delivery of the Combined Authority's Growth Ambition Programme (A)	Potential impact of Brexit on delivery of the Combined Authority's Growth Ambition Programme in the short term.	Potential financial uncertainty and economic instability leading to insufficient investment in priority projects in the short term.	Strategic	Open	Close	4	4	16	06/01/2021	Appointment of SRO to advise on BREXIT mitigation strategy and oversee implementation Appointment of INTERIM assistant to SRO to assist with strategy and implementation Engagement with Business Advisory Panel & Business Board to balance views of businesses Engagement with business organisation (FSB, CBI etc) stakeholders to augment resources	Monitoring of daily/weekly bulletins from MCHLG, BEIS, HMRC to ensure information is accurate and up to date, recognising funding streams relevant to need Engagement with LEP Network and CLGU on funding for additional resources	Director of Business & Skills [Brexit Lead]		2	2	4	Assumption being that CPCA re-calibrate our objectives to a new GVA figure. With the advent of a trade deal the main residual risk relates to the long term reduction in attractiveness of the UK as an inward investment destination, especially from Europe.	Director of Business & Skills [Brexit Lead]	N/A	
14	01/03/2020	Covid-19 Pandemic (A)	Disruption to the operation of the Combined Authority	Potential absence of significant numbers of Combined Authority staff undermining the ability to transact the operational business of the Combined Authority	Operational	Open	Imminent	4	4	16	06/01/2021	Developed a business continuity plan based on technological advances (digital transformation)	HR support to staff working remotely. Communication with both suppliers and delivery partners All Combined Authority staff are now working from home, with support for remote meetings. Developed on digital transformation on virtual exhibitions and online Committee / Board meetings. Liaison with suppliers to ensure continuity of supply chains.	Chief Executive		3	4	12		Chief Executive	N/A	
10	01/09/2019	Lack of Resource Planning & Financial Management practices	Absence of Resource Planning & Financial Management	The organisation has no clear budget and capital programme that sets out how resources will be deployed and managed within. This is fundamental to any proper management process and any reporting that will be required by CPCA Board, Stakeholders and Government. Without this, no prioritisation takes place and there is no clear measurement of outcome v ambition. It is the framework for sound	Financial	Open	Imminent	2	5	10	06/01/2021	A comprehensive Medium Term Financial Plan was approved at Board in January 2020, and is in the process of being reviewed as part of the COVID-19 response to focus on refreshed priorities to support economic recovery. Regular financial and budget update reports are provided to Committees and to the CPCA Board. Internal Management reporting is being developed alongside the PMO highlight reports.	Monthly Budget monitoring reports All business cases for capital spend is approved at Board CFO and Monitoring Officer to sign off all business cases and reports	Chief Finance Officer		1	3	3		Chief Finance Officer	N/A	
22		Delivery partner authorities determining that costs incurred in relation to CPCA capital funded projects should not be treated as capital expenditure for the purposes of the relevant finance rules.	Grant funding which is expected to be treated as capital expenditure is required to be treated as revenue expenditure by CPCA, as a result of a determination by a partner delivery authority. The risk would be a consequent shortfall in revenue funding to meet the commitment.	Revenue funding deficit	Financial	Open	Approaching	2	3	6	12/01/2021	Discussions with Delivery Partners including constituent authorities. Ensure that grant determination letters are explicit in the expectation that capital grant funds will be used only for capital purposes.		All Directors		1	3	3		Chief Finance Officer		
23										0								0				
24										0								0				
25										0								0				
26										0								0				
27										0								0				
28										0								0				
29										0								0				
30										0								0				
31										0								0				
32										0								0				
33										0								0				
34										0								0				
35										0								0				
36										0								0				
37										0								0				
38										0								0				
39										0								0				
40										0								0				
41										0								0				
42										0								0				
43										0								0				
44										0								0				
45										0								0				
46										0								0				
47										0								0				

Corporate Risk Register

Risk ID	Date Identified	Cause(s)	Risk Event	Effect(s)	Risk Type	Risk Status	Risk Proximity	Likelihood (1-5)	Impact (1-5)	Inherent RAG score	Date Last Review	Mitigation Plan (Current Controls)	Mitigation Action (New Controls)	Action Owner	Date Action Closed	Likelihood (1-5)	Impact (1-5)	Residual RAG score	Comments/Notes /Assumptions	Risk Owner	Escalation Required?	Date Closed
48										0								0				
49										0								0				
50										0								0				
51										0								0				
52										0								0				
53										0								0				
54										0								0				
55										0								0				
56										0								0				
57										0								0				
58										0								0				
59										0								0				
60										0								0				
61										0								0				
62										0								0				
63										0								0				
64										0								0				
65										0								0				
66										0								0				
67										0								0				
68										0								0				
69										0								0				
70										0								0				
71										0								0				
72										0								0				
73										0								0				
74										0								0				
75										0								0				
76										0								0				
77										0								0				
78										0								0				
79										0								0				
80										0								0				
81										0								0				
82										0								0				
83										0								0				
84										0								0				
85										0								0				
86										0								0				
87										0								0				
88										0								0				
89										0								0				
90										0								0				
91										0								0				
92										0								0				
93										0								0				
94										0								0				
95										0								0				
96										0								0				
97										0								0				
98										0								0				
99										0								0				

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY | JAMES PALMER CAMBRIDGESHIRE & PETERBOROUGH MAYOR

Risk Management Strategy

Cambridgeshire and Peterborough Combined Authority (CPCA)

Incubator 2, The Boulevard
Enterprise Campus, Alconbury Weald
Huntingdon, PE28 4XA

Contents

1. Introduction

This Risk Management Strategy outlines the approach taken by Cambridgeshire and Peterborough Combined Authority (CPCA). This guide describes the specific management activities that will be undertaken for the organisation and the individual portfolios within CPCA.

Risk management is the effective way to manage risk before it becomes an issue. It also implements processes to deal with risk escalation, promotion and issue management.

A risk can be either a threat (i.e. uncertain event that could have a negative impact on objectives or benefits) or an opportunity (i.e. an uncertain event that could have a favourable impact on objectives or benefits)

The benefits gained from effectively managing risk include:

- Encouraged proactive management – strategic, operational and financial;
- Increased likelihood to deliver against objectives and targets;
- Improved identification of opportunities and threats;
- Improved operational effectiveness and efficiency;
- Improved CPCA learning;
- Improved CPCA resilience.

Issues are risk events that have happened. These were not planned and require immediate management actions. Risks when they occur become issues or as otherwise known "become realised".

The Risk Management Strategy implements section 6.3 of the Assurance Framework. "It is important that the level of risk taken on any project and programme is understood from an early stage alongside the associated cost implications. Project managers are required to include risk as part of funding requests".

2. Risk Policy

CPCA recognises the need for risk management to feature in our strategic, operational planning and decision-making governances. CPCA is committed to managing and minimising risk by identifying, analysing, evaluating and treating risks that may impact the future success of the organisation. The approach has the following aims:

- All staff obtain a sound understanding of the principles of risk management;
- Issues are avoided or if realised they have a reduced financial impact by an increased understanding of risk and quickly identifying mitigation responses;
- Risk management is embedded in decision making by providing visibility of risks.

The approach is based on: thinking logically; identifying key risks and what to do about each risk; deciding who is responsible and accountable for the risk; recording the risks and changes in risk exposure; monitoring the risks and learning from events.

CPCA is a complex organisation with different portfolios, these include:

- Business & Skills.

- Corporate Services.
- Housing.
- Transport & Strategy.

When dealing with particular projects within these portfolios, guidance is used through Supplementary Green Book Guidance for Optimism Bias.

3. Risk Management Aims and Objectives

The aim of risk management is to ensure that CPCA has an effective process to support better decision making through good understanding of risks and the likely impact these risks may have. In general terms, "risk management" refers to the architecture (principles, framework and process) for managing risks effectively, while "managing risk" refers to applying that architecture to particular risks.

In order for CPCA's Risk Management Strategy to be effective, all employees at CPCA should understand risk management. The core principles of the Risk Management Strategy are:

- Integral part of all CPCA processes.
- Part of decision making.
- Explicitly addresses uncertainty.
- Based on the best available information.
- Tailored approach.
- Takes human and cultural factors into account.
- Transparent and inclusive.
- Dynamic, iterative and responsive to change.
- Facilitates continual improvement of CPCA.

These principles will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within CPCA for risk management;
- Following the Risk Management Methodology (Appendix 1);
- Effective communication with all CPCA employees;
- Monitoring progress in implementing the strategy and reviewing the risk management arrangements on an on-going basis.

As stated within the Assurance Framework, "at project level, all projects are expected to outline, in detail, any identified risks during the business case development and due diligence processes. Once in delivery, ongoing risk registers are maintained and incorporated into the monthly highlight report".

Within CPCA, we have defined risk into four groups. This is to effectively implement the risk management strategy. The four risk groups are:

- Project
- Programme
- Portfolio
- Corporate

4. Roles and Responsibilities

The table below outlines the key roles within the Risk Management Strategy: -

Table 1: Roles and Responsibilities – Project Level

Role	Responsibility / Action
Corporate Risk Owner / Chief Executive	• Authorises the risk and issue management strategy and its adjustment, improvement and enforcement • Ownership of strategic / corporate risks and issues, ensuring mitigation actions are dealt with at the appropriate senior level. • In charge of monitoring the strategy / corporate risk register. • Define clear rules for escalation and promotion. • Deploys a consistent language of risk management across the corporate, portfolio, programme and its projects.
Portfolio Director	• Ownership of portfolio-level risk and issues. • Assures portfolio adherence to the risk management principles • Define clear rules for escalation and promotion. • Deploys a consistent language of risk management across the portfolio, programme and its projects. • Escalates items across the programme boundaries to Corporate Risk Owner for resolution where necessary. • Communicates the progress of the resolution of issues in a clear and timely fashion across the portfolio. • Coordinates risk and issue management interfaces with programmes. • Provides support and advice on risks and issues to programmes. • Allocates risk and issues as appropriate.
Programme Risk Owner	• Ownership of programme-level risk and issues. • Assures programme adherence to the risk management principles. • Deploys a consistent language of risk management across the programme and its projects. • Escalates items across the programme boundaries to Portfolio Director for resolution where necessary. • Communicates the progress of the resolution of issues in a clear and timely fashion across the programme. • Coordinates risk and issue management interfaces with projects. • Provides support and advice on risks and issues to projects. • Allocates risk and issues as appropriate.
Project Risk Owner	• Ownership of project-level risk and issues. • Assures the project adherence to the risk management principles. • Deploys a consistent language of risk management across the projects.

	• Escalates items across the programme boundaries to Programme Risk Owner for resolution where necessary. • Communicates the progress of the resolution of issues in a clear and timely fashion across the project. • Allocates risk and issues as appropriate.

Table 2: Roles and Responsibilities – Governance Level

Role	Responsibility / Action
Combined Authority Board	• Adopt and review the Risk Management Strategy. • Receive recommendations from the Audit and Governance Committee as to the Authority's arrangements for the management of risk and on the any concerns that risks are being accepted which the Authority may find unacceptable.
Business Board	• Review and challenge mitigation and exploitations at the appropriate level (in relation to matters directly controlled or indirectly accessible by the Business Board).
Audit and Governance Committee	• Initiates assurance reviews of risk and issue management effectiveness. • Reviews the Authority's risk management arrangements. The Committee will consider the Risk Management Strategy on an annual basis and will make appropriate recommendations to the Combined Authority Board. • Monitors the Authority's risk and performance management arrangements including reviewing the corporate risk register on a quarterly basis together with progress with mitigating actions and assurances.
Internal Audit	• Responsibility to undertake sufficient work to establish whether the CA has "adequate and effective" risk management, control and governance processes. • The Chief Internal Auditor provides an annual opinion on the overall systems of internal control and their effectiveness.
Monitoring Officer	• Manages and coordinates the resolution of risks relating to operational performance and benefits achievement. • Ensures that risk management cycle includes operational risks. • Manages risks that impact on business performance and transition. • Identifies operational issues and ensures that they are managed by the programme. • Identifies opportunities from the business operations and raises them for inclusion in the programme. • Contributes to impact assessments and change control. • Monitors and reports on business performance issues that may require the attention of the programme during transition.
Section 73 Officer	• The Chief Finance Officer is appointed under Section 73 Officer of the Local Government Act 1985 to ensure that proper administration of the financial affairs of the Combined Authority and Business Board. The Section 73 Officer is

	responsible for providing the final sign off for funding decisions. The Section 73 Officer will provide a letter of assurance to government by 28th February each year regarding the appropriate administration of government funds under the Cambridgeshire and Peterborough Investment. • The S73 office is also required to report to, and provide assurances to, the Audit and Governance Committee in relation to the Combined Authority's risk management and assurance mapping arrangements and has overall responsibility for maintaining adequate and effective internal control arrangements.
Project Management Office (PMO)	• Manages and coordinates the information and support systems to enable efficient handling of the programmes risk and issues. • Maintains the risk register for each programme. • Maintains the issue register for each programme. • Establishes, facilitates and maintains the risk management cycle. • Establishes, facilitates and maintains the issue management cycle. • Maintains the configuration management system (document control). • Facilitates the change control steps.

The Assurance Framework states that "Senior Officers of the Combined Authority (Chief Executive and S73 Officer) are responsible for the identification and management of risk. The Combined Authority has an Assurance Manager, to support this activity".

5. Arrangements for Managing Risk

The Risk Management Methodology to be employed at CPCA is outlined in Appendix 1, with a copy of the Issue Management Strategy within Appendix 2. The project risk and opportunity templates and guidance notes can also be found in Appendix 3 and Appendix 4. Dealing with risk events that have become issues are documented in Issue Log Appendix 5.

6. Monitoring Arrangements

To ensure that informed decisions are made, it is essential to identify key strategic risks. Strategic risks will be reviewed monthly by the Combined Authority Management Team, as per the Assurance framework and will be documented in the Corporate Risk Register.

Progress in managing strategic risks will be monitored and reported on to ensure that identified actions are delivered and risks managed.

The Corporate Risk Register will be reviewed by the Audit & Governance Committee on a quarterly basis as per the Assurance Framework.

Internal Audit will carry out a periodic review of the CPCA's risk management arrangements to provide independent assurance as to their effectiveness.

In carrying out audits throughout the year, Internal Audit will also:

- Identify and report weaknesses in the controls established by management to manage/monitor risks;
- Provide advice on the design/operation of the controls established by management to manage/monitor risk.

In order to ensure risk management is effective, CPCA will:

- Measure risk management performance against indicators, which are periodically reviewed for appropriateness.
- Periodically measure progress against, and deviation from the risk management plan.
- Periodically review whether the Risk Management Methodology, policy and plan are still appropriate given CPCA internal and external context.
- Report on risk, progress with the risk management plan and how well the risk management policy is being followed.
- Review effectiveness of Risk Management Methodology.

7. Training and Communication Arrangements to Support Implementation of the Strategy

Training of the Risk Management Methodology (Appendix 1) will be provided to those employees with direct responsibility for involvement in the risk management process:

- Corporate Risk Owner;
- Portfolio Director;
- Programme Risk Owner;
- Project Risk Owner;
- PMO;
- Board;
- Internal Auditor;
- Monitoring Officer;
- Section 73 Officer;
- All employees.

8. Review of the Risk Management Strategy

This strategy will be reviewed every three years.

9. Appendices:

Appendix 1: Risk Management Methodology

Appendix 2: Issue Management Strategy

Appendix 3: Risk Register and Guidance Notes

Appendix 4: Opportunity Register and Guidance Notes

Appendix 5: Issue Log and Guidance Notes

10. Version Control

Any amendments to the Risk Management Strategy should all be logged in the box below:

Version	Date	Comments
1.0	07/11/2019	First draft of Risk Management Strategy
2.0	05/12/2019	Finalised for inclusion to Audit and Governance Committee for 16th December 2019
2.1	16/12/2019	Approved with minor amendments from Audit and Governance Committee
2.2	29/01/2020	Adopted by Combined Authority Board

11. References

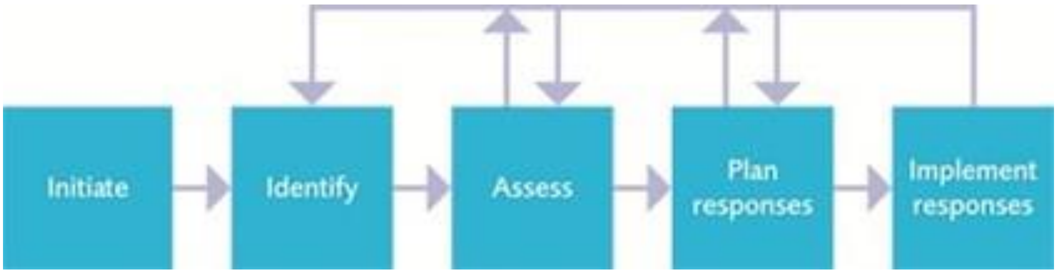
1. Association for Project Management (APM) Book of Knowledge, 2014.
2. Managing Successful Programmes (MSP) Best Practice Management, 2011.
3. Cambridgeshire & Peterborough Combined Authority (CPCA) Risk Management Strategy, 2018.
4. British Standard – Risk Management – Principles and guidelines, BS ISO 31000:2009.
5. Supplementary Green Book Guidance, Optimism Bias, HM Treasury.
6. Cambridgeshire & Peterborough Combined Authority (CPCA) Constitution, 2019.
7. Cambridgeshire & Peterborough Combined Authority (CPCA) Assurance Framework, 2019.

Appendix 1. Risk Management Methodology

1. The Risk Management Cycle

There are 5 key stages in the risk management cycle, Initiate, Identify, Assess, Plan and Implement (IIAPI) as illustrated in the diagram below:

Diagram 1: Risk Management Cycle (IIAPI)



The 5 stages of risk management are part of a cycle. Risk management is dynamic and so the identification phase needs to be carried out continuously. As the process is repeated throughout the project/programme/portfolio lifecycle, the assessment or response planning can lead to the identification of further risks and planning and implementing responses can trigger a need for further analysis and so on.

A key output from the initiation step is the risk management plan, which details how risk will be managed throughout the life cycle.

An individual risk is defined as “either a threat (i.e. uncertain event that could have a negative impact on objectives or benefits) or an opportunity (i.e. an uncertain event that could have a favourable impact on objectives or benefits)”

2. Initiate

The main output for the initiation phase is the Risk Management Plan or Risk Management Strategy which is available on the Combined Authority website.

This describes the key elements on how risk management will be implemented:

1. Scope;
2. Objectives;
3. Roles and Responsibilities;
4. Process;
5. Tools.

3. Risk Identification (what can happen and how can it happen?)

Risk identification starts with uncertain events being articulated as threats and opportunities. To help identify whether an uncertain event is a project, programme, portfolio or corporate risk, definition for these risk groups can be found below:

Project – has a specific impact on a single project only.

Programme – has common attributes across multiple projects (within an interdependent group of projects) and may affect the delivery of those associated projects.

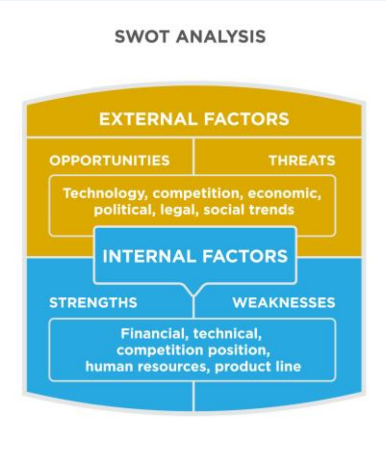
Portfolio – distinct directorial area, made up of a collection of individual projects and programmes that are not necessarily interdependent of each other e.g. Business & Skills, Housing, Transport & Strategy.

Corporate – refers to the liabilities and opportunities that positively or negatively impact CPCA as an organisation.

Identification techniques draw on various sources of information. Identification of risks from previous projects, programmes and portfolios involves looking at lessons learned reports and risk registers.

The aim of the risk identification process is to generate a comprehensive list of risks, with relevant and up to date information important in identifying these risks. A variety of risk identification processes may be used as exemplified in the table below.

Table 1: Risk Identification Techniques

Risk Identification Techniques	
Technique	Description
Risk Gap Analysis	Using a list of common risks as a discussion point in risk reviews.
Workshops & Brainstorming	Collection and sharing of ideas that could impact the objectives of the project / objective.
Audits and Inspections	Physical inspections of premises and activities and audits of compliance with established systems and procedures. Flowcharts and dependency analysis of the processes and operations within the organisation to identify critical components that are the key to success.
SWOT analysis	Considering a project/programme/organisation's Strengths Weaknesses Opportunities Threats (SWOT) – opportunities and threats are usually external risks, while strengths and weakness are normally internal risks. 

PESTLE analysis	Considering potential sources of risk arising from six possible elements: Political, Economic, Social, Technological, Legal & Environment (PESTLE) 

4. Risk Assessments (Determine the likelihood and impact)

The assessment of risk can be broken down into how likely it is that a risk might become an issue, and what impact that issue would have. These are defined as likelihood and impact:

▪ The probability of an event occurring and when they might happen – **likelihood.**

▪ The potential severity of the consequences (positive and negative) should such an event occur – **impact.**

The following table below provides likelihood and impact descriptors to assist with this process:

Table 2: Likelihood vs Impact definitions

Likelihood	
1	Rare – This event may occur but only in exceptional circumstances (0-5%)
2	Unlikely – Not likely to not occur under normal circumstances (6-20%)
3	Moderate - Given time likely to occur (21-50%)
4	Likely – The event will probably occur in most circumstances (51-80%)
5	Almost Certain – This event is expected to occur soon (81-99%)

Impact	
1	Negligible – Risks may have minimal damage / gain or long-term effect
2	Marginal – Risks may have minor loss / gain but little overall effect
3	Significant – Risks may have considerable loss / gain.
4	Major – Risks may have significant loss / gain.
5	Monumental – Risks may have extensive loss / gain and long-term effect.

When discussing the impact of risks, it is important that we are not just focusing on the impact to the individual project/programme and that we also consider the impact that can affect the strategic objectives of CPCA. It should be noted that, while the likelihood assessment should not change, the impact assessment may change when risks are escalated from project to programme to portfolio to corporate risks: this reflects that a risk may be critical to a project's outcomes, but that project may not be critical to the CPCA's outcomes as a whole.

When discussing the impact (positive or negative) a risk can have on a project, programme, portfolio or corporate, it is important to remember to use the following criteria. These are:

- Cost
- Time
- Quality
- Safety
- Operational Impact
- Reputation

Once every risk has been given a score for its likelihood x Impact, it is given an overall score and corresponding RAG status (Red Amber Green Rating).

Table 3: Overall RAG Status

Overall RAG Status		Impact				
		1	2	3	4	5
Likelihood		Negligible	Marginal	Significant	Major	Monumental
5	Almost Certain	5	10	15	20	25
4	Likely	4	8	12	16	20
3	Moderate	3	6	9	12	15
2	Unlikely	2	4	6	8	10
1	Rare	1	2	3	4	5

The RAG rating is an indictor to determine the severity of a risk.

Priority will be given according to the RAG Status:

- Red – Require immediate action plans
- Amber – Require action plans and / or to be closely monitored as appropriate.
- Green – Can be "Accepted" and may not require action plans.

This determines the Risk Tolerance. Risk Tolerance is the measure of the degree of uncertainty that a stakeholder/organisation accepts in respect of the project/programme/portfolio risk assessment.

However, these risks will need to be monitored to ensure that controls remain operational in order to manage them. Just because a risk is deemed as "Accepted" does not mean that this risk is forgotten about. For example, risks are to be monitored and reviewed to ensure that a green risk does not escalate to an amber risk and therefore would require more action. Similarly, it is also important to ensure that amber risk does not escalate to a red risk.

Just as risks can increase in RAG status, they can also decrease with the right mitigation or change in circumstance. A risk that was deemed as red at the beginning of the project can be moved down to green throughout the project lifecycle. The current RAG rating is called the Project/Programme/Portfolio/Corporate Risk Status.

Risks are recorded on the Risk and Opportunity Register for that project, programme or portfolio. Templates and guidance for this is found in Appendix 3 and 4. Corporate Risks are stored on the Corporate Risk Register (Appendix 6).

5. Mitigation and Risk Control

Having prioritised the risk, it is now necessary to determine a potential response for the higher risk events. There are two things to do here:

1. Determine what can be done to reduce the probability of the risk occurring (therefore, reducing its likelihood).
2. Determine a plan and set aside contingencies to deal with if it does become realised. (therefore, reducing its impact)

This process is called mitigation. An example of risk events and planned responses are shown below:

Table 4: Risk Events and Responses

Risk Event	Consequences	Mitigation action to reduce probability	Contingency actions to deal with the event if it occurs
Bad weather happens on a key date	There may be delays in replacing the roof, thereby causing delays and potential overspend	Do roofing work during drier months	Erect protective sheeting above roof while work takes place. Stop work and move workers inside during bad weather
The new server does not arrive in time	The software testing cannot take place	Make sure it is purchased from a reputable supplier	Provide a delay between planned delivery and testing starting Purchase two as a spare
The staff do not accept the new working practices	Poor customer service and morale	Make sure staff are communicated with early in the process	Have a long transition phase Hire temporary staff while changes and alterations are made

Risk Control is the process of acting to minimise the likelihood of the risk event occurring and/or reducing the severity of the consequences should it occur. This will be applied on risk and opportunities. There are 8 main options to consider, 4 for risk and 4 for opportunities.

Risk

1. **Accept** – Here we accept the risk and take no proactive action other than putting monitoring processes in place to make sure that the potential for damage does not change. Once the risk is accepted it is generally necessary to provide for some form of contingency to provide funds / time to accommodate the risk should it happen (despite its lower likelihood / impact)

2. **Avoid** – The only real way to avoid a risk is to change the project scope or approach – what we do or the way we do it.
3. **Transfer** – We seek to move the risk from our risk register onto someone else's risk register. We seek to transfer the potential for harm to another. Usually through an insurance policy or a contract.
4. **Reduce** – either the likelihood or impact.

Opportunity

1. **Reject** – Choose not to take the advantage of the opportunity, possibly because it is worth too little or requires too much work to capitalise on.
2. **Enhance** – Take proactive steps to try and enhance the probability of the opportunity being able to be exploited.
3. **Exploit** – This involves changing the scope of the project /programme to encompass some aspect that wasn't previously discussed that will achieve some extra benefit.
4. **Share** – Seek partners with whom can actively capitalise on the circumstances such as a Joint Venture.

Care is needed when arriving at any response to risk because regardless of what action is taken, it has the potential to generate other risks.

When a risk can no longer be mitigated and the risk becomes realised, it is then called an "Issue". This requires a different management strategy, and this can be found in Issue Management Strategy (Appendix 5).

6. Implement Risk Responses

The primary goal of the implement element is to ensure that the planned risk management (mitigation and control) actions are monitored as to their effectiveness and corrective action is taken where responses do not match expectation.

An important part of this is to understand the roles and responsibilities outlined in Table 1 of the Risk Management Strategy. This ensures that at least one individual is always clearly identified as the risk owner, and another individual is identified as the rick actioner. The key roles are:

- **Risk Owner** – Responsible for the management and control of all aspects of risk assigned to them, including managing, tracking and reporting the implementation of the selected actions to address the threats or to maximise the opportunities.
- **Risk Actioner** – Responsible for the implementation of risk response actions. They support and take direction from the risk owner.

Anyone can raise a risk. Just because an employee and or stakeholder raises a risk, this does not necessarily make them the Risk Owner. A Risk Register can have many risk owners.

7. Risk Promotion from Project to Corporate

Risk Promotion is the term used when a project risk is deemed to be a programme/portfolio or even a corporate risk. The decision to promote a project risk to a programme risk is taken by the

Programme Risk Owner. A risk should be promoted from a project to a programme risk when the project risk is deemed to have an impact on a programme.

For example, if a project needs to deliver a particular output in order for another project within that programme to be completed. This also works the same for when a programme risk has impact on a portfolio. The risk will then be promoted by the Portfolio Risk Owner. Another example is that at project level, a small risk can have limited effect, but when a project risk is combined with other risks in adjacent projects, it can produce a significant impact on a programme or portfolio.

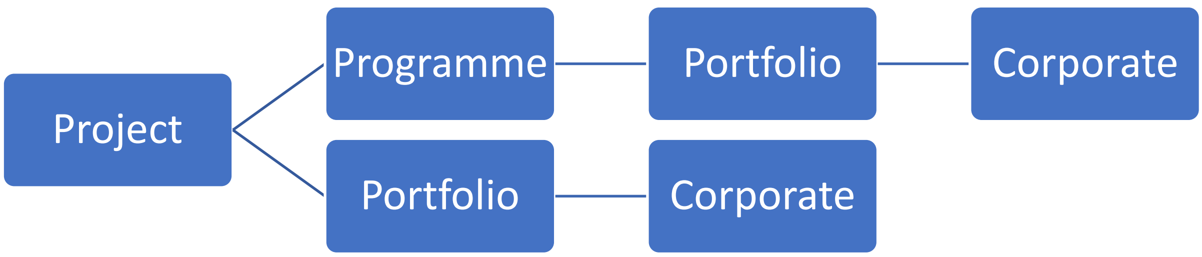
Therefore project, programme, portfolio and corporate risks can:

- Accumulate to critical loss and or damages
- Grow (where the sum of the risks is bigger than individual parts)
- Reduce (where the sum of the risks is smaller than individual parts)

As project risks can move up the promotion process to programme then to portfolio and then to corporate risk, there is also opportunity for a project risk to go direct to portfolio level. As previously defined the difference between a programme and a portfolio is that a programme is a collection of projects which have an interdependent link; while a portfolio is a collection of individual projects and programmes not necessarily having that interdependent link. Therefore, a project risk can have significance on that individual project but also have the opportunity to affect the delivery of the portfolio.

Below is a diagram showing this Risk Promotion process.

Diagram 2: Risk Promotion Process



It is the decision of the relevant Risk Owner (as per the Roles and Responsibility table within the Risk Management Strategy) to decide to promote the risk. A risk can be deemed to have project, programme, portfolio and corporate significance and therefore might stay on all three risk registers with different levels of action / mitigation and different risk owners.

It is important to remember that no matter which level the risk sits, that the risk is managed effectively and review on a regular basis to ensure no escalation.

8. Review Monitoring and Review

Risk is managed as a cycle as it's a continual process. It should involve regular checking or surveillance, and this will be done periodically (via meeting such as Risk Reviews, Programme Reviews etc) or ad hoc. A combination of both ensures that risks are reviewed regularly, and the mitigation and action plan are up to date.

Monitoring and review ensures that we continually learn from experience. The objectives of our monitoring and review process are as follows:

- Ensuring the controls are effective in both design and operation;
- Obtaining further information to improve risk assessment;
- Analysing and learning lessons from previous event;
- Detecting changes in the external and internal context;
- Identifying emerging risks.

Open culture tool for improvement – good mission statement.

Appendix 2: Issue Management Strategy

1. Introduction

An issue is a relevant event that has happened, was not planned and requires management actions. The action may be to fix the problem that has caused the event to happen in the first place, or to change the boundary of the project/programme.

Issue management is the process of identifying and resolving issues. Problems with staff or suppliers, technical failures, material shortages for example all have a negative impact on your project. If the issue goes unresolved, you risk creating unnecessary conflicts, delays, or even failure to produce project objectives.

Issues and risks are not quite the same thing, however the exact nature of both is largely unknown at the start of a project. The Risk Management Methodology (Appendix 1) highlights how to identify and assess all potential risks. Issues, however, have to deal with as they happen. Issue management is therefore a planned process for dealing with an unexpected issue – whatever that issue may be – if and when one arises.

Issues can typically be classified into one of the following three types:

1. A previously identified risk that has now materialised and requires appropriate issue management action.
2. A request for change to some aspect of the programme, an operation or a project
3. A problem affected all or part of the programme/project in some way.

2. Issue Register

Issues are recorded in the Issue Register (Appendix 5). The Issue Register is similar to the Risk Register and is a repository that focuses on all identified issues that have occurred. It includes former risks if they have materialised from previous projects / programmes / programmes to ensure a Lessons Learned approach. On the Project Risk Register template (Appendix 3), under column “Risk Status” it allows the risk status to be updated to “realised”. Once the risk becomes realised, these are then migrated to the Issue Register (Appendix 5).

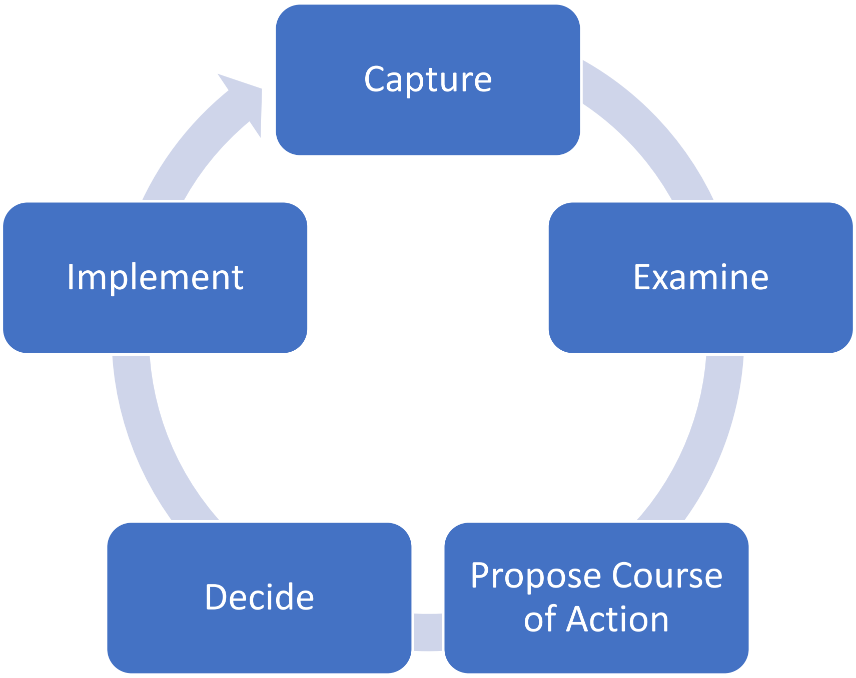
Having an Issue Register allows CPCA to:

- Have a safe and reliable method for the team to raise issues.
- Track and assign responsibility to specific people for each issue.
- Analyse and prioritize issues more easily.
- Record issue resolution for future reference and project learning.

3. Issue Management Methodology

Like the Risk Management Methodology (Appendix 1) the Issue Management Methodology is a cycle with 5 steps, shown below:

Diagram 1: Issue Management Cycle



Within these 5 steps there are two ongoing activities. These are:

1. **Monitor and Control** ensures that the decision can be achieved within the estimates of time and cost and that the impact of the overall risk profile is not greater than anticipated.
2. **Embed and Review** ensures that issue management is being appropriately and successfully handled within each programme and ultimately across the organisation. It looks at each individual step of the cycle to determine its contribution to the overall quality of issue management.

1. Capture

The first step is to undertake an initial analysis to determine the type of issue that has been raised. When capturing the issue, it should be assessed by its severity and impact on the portfolio/programme/project and also allocated to an individual or group of people for examination.

When allocating an issue, the initial decision might be to direct the issue to where it can most appropriately be managed. Some issues will be managed by the Programme, and major issues might need to be managed at Portfolio level when outside the authority of the programme. Smaller issues might need to be managed at project level.

2. Examine

The next step is to examine the issue by undertaking impact analysis. The analysis should consider the impact that the issue, and the options for its resolution, will have on:

- The portfolio/programmes performance, especially how benefits are realisation will be affected.
- The portfolio/programmes/projects business case.

- The portfolio/programme risk profile – the impact on the overall risk exposure.
- The operational performance of the organisation and existing plans.
- Supplier contact or service level agreements.

Impact analysis must include a broader view, the portfolio, the programme, its projects, operations and strategic objectives. As a minimum, an issue should always be assessed against the impact on the projects/programmes objects and benefits.

3. Propose Course of Action

Alternative options should be considered before proposing a course of action to take. The action chosen should maintain an acceptable balance between the advantage to be gained (benefits) and the impact on cost, time and risk. When the concurrent change initiatives affect the same operational areas, this acceptable balance may require an assessment across these other portfolio, programme and projects.

Some changes may be mandatory, for example to comply with new legislation. Therefore, the action might be to then achieve compliance with minimum impact. However, in such cases the analysis work should explore where the mandatory change opens up other opportunities to improve the portfolio/programmes/projects performance and benefits.

4. Decide

As per the Risk Management Strategy Section 4, the roles and responsibilities in terms of Risk and Issues have been defined. A table below demonstrates these roles and responsibilities set out relating to Issue Management:

Table 1: Roles and Responsibilities

Role	Responsibility / Action
Corporate Risk Owner	• Authorises the risk and issue management strategy and its adjustment, improvement and enforcement • Ownership of strategic / corporate risks and issues, ensuring mitigation actions are dealt with at the appropriate senior level. • In charge of monitoring the strategy / corporate risk register. • Define clear rules for escalation and promotion. • Deploys a consistent language of risk management across the corporate, portfolio, programme and its projects.
Portfolio Director	• Ownership of portfolio-level risk and issues. • Assures portfolio adherence to the risk management principles • Define clear rules for escalation and promotion. • Deploys a consistent language of risk management across the portfolio, programme and its projects. • Escalates items across the programme boundaries to Corporate Risk Owner for resolution where necessary. • Communicates the progress of the resolution of issues in a clear and timely fashion across the portfolio.

	• Coordinates risk and issue management interfaces with programmes. • Provides support and advice on risks and issues to programmes. • Allocates risk and issues as appropriate.
Programme Risk Owner	• Ownership of programme-level risk and issues. • Assures programme adherence to the risk management principles. • Deploys a consistent language of risk management across the programme and its projects. • Escalates items across the programme boundaries to Portfolio Director for resolution where necessary. • Communicates the progress of the resolution of issues in a clear and timely fashion across the programme. • Coordinates risk and issue management interfaces with projects. • Provides support and advice on risks and issues to projects. • Allocates risk and issues as appropriate.
Project Risk Owner	• Ownership of project-level risk and issues. • Assures the project adherence to the risk management principles. • Deploys a consistent language of risk management across the projects. • Escalates items across the programme boundaries to Programme Risk Owner for resolution where necessary. • Communicates the progress of the resolution of issues in a clear and timely fashion across the project. • Allocates risk and issues as appropriate.

The Programme / Project Risk Owner may be able to resolve or delegate minor issues without reference to any other role for a decision. Some issues however, may need to be referred to the Corporate Risk Owner or Portfolio Director or the proposal may need to be referred to a specialist role (monitoring officer or Section 73) when it involves business change.

If a decision for change is made, then this change should be planned with appropriate recognition of the need for contingency, additional resources and a fall-back plan should the change cause unexpected problems.

When a decision is made there will also need to be an issue owner, issue actioner and a response action plan identified. The Issue Register should also be updated.

5. Implement

The decision and response action plan will be communicated to the appropriate stakeholder for several reasons:

- So that personnel, especially each issue actioner, are aware of changes to their work schedules and can undertake their assigned tasks to fix the problems and implement the changes.

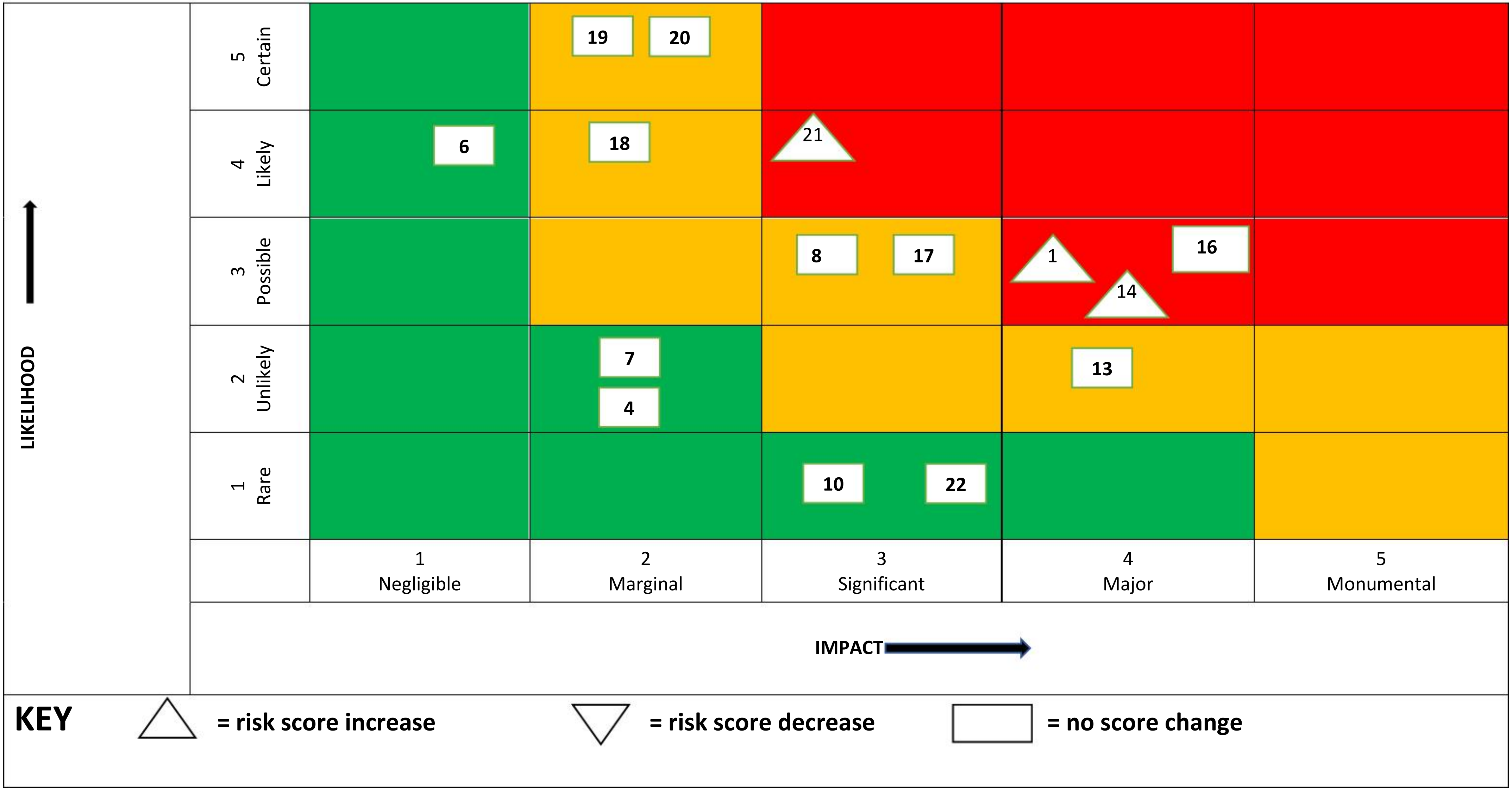
- To inform those who raised the issue and what course of action is being perused.
- To inform stakeholders who may be affected by the change (suppliers, contractors etc)
- To demonstrate effective management of the project/programme/portfolio.

The issue register is updated, and all other documents are revised whether the decision affects the content. In majority of cases the programme plan will need to be updated as well.

The change is then applied, and the impact of the change monitored, and lessons learned from its introduction. The impact of these should be used for the assessment of future changes/issue management.

As stated previously this a continual cycle and should be monitored and reviewed regularly to ensure compliance.

Combined Authority Corporate Risk Heat Map



CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY | JAMES PALMER CAMBRIDGESHIRE & PETERBOROUGH MAYOR

Agenda Item No: 7

Report title: External Audit – Annual Audit Letter

To:	Cambridgeshire and Peterborough Combined Authority Audit and Governance Committee
Meeting Date:	29 January 2021
Public report:	Yes
Lead Member:	n/a
From:	Jon Alsop Chief Finance Officer
Key decision:	No
Forward Plan ref:	n/a
Recommendations:	The Committee is recommended to: a) note the annual audit letter 2019/20 as provided by the Combined Authority's external auditors, Ernst and Young LLP (EY)

1. Purpose

1.1 This paper is to provide the Committee with EY's annual audit letter.

2. Background

2.1 At the November 2020 meeting, the Audit and Governance Committee received and approved the final Statement of Accounts and the Annual Governance Statement for 2019/20 and received and noted the External Auditors Report. EY subsequently issued an unqualified audit opinion on the Statement of Accounts.

2.2 The final version of the Financial Statements was then published on the Combined Authority's website on 27 November 2020, ahead of the revised deadline for publication of 30th November.

2.3 EY's Annual Audit Letter, relating to the audit of the accounts is provided at Appendix 1.

2.4 The purpose of the annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from EY's work which EY consider should be brought to the attention of the Combined Authority.

2.5 The letter includes the conclusions that:

a) “The financial statements give a true and fair view of the financial position of CPCA as at 31 March 2020 and of its expenditure and income for the year then ended.”
b) “Other information published with the financial statements was consistent with the Annual Accounts.”
c) “The CPCA has put in place proper arrangements to secure value for money in its use of resources.”

Significant Implications

3. Financial Implications

3.1 The fee for the planned code work is £26,950. EY’s proposed uplift is £2,695, which will need to be agreed with Public Sector Audit Appointments ltd (PSAA), the body responsible for setting audit fees. Additional audit fees have been agreed relating to the following additional work carried out by the auditors.

Value for Money Conclusion significant risk - £5,909
Significant risk – incorrect capitalisation - £2,480
IAS 19 audit of pension disclosures - £4,004
Correspondence from the public - £3,297
Impact of Covid 19 - £1,755
Mayor's request in respect of correspondence with MRCLG - £3,912

The total audit fee for the year is therefore expected to be £51,002. The total fee for 2018/19 was £35,350. The majority of the increase from last year relates to the last four items listed in the above table, together with the proposed scale fee increase.

4. Legal Implications

4.1 No legal implications have been identified.

5. Other Significant Implications

5.1 No other significant implications have been identified.

6. Appendices

6.1 Appendix 1 – Annual Audit Letter 2019/20 (EY)

7. Background Papers

7.1 There are no other supporting or background documents which have been relied upon when preparing this report.

Cambridgeshire & Peterborough Combined Authority

Annual Audit Letter for the year ended 31 March 2020

January 2021

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Cambridgeshire & Peterborough Combined Authority (CPCA) following completion of our audit procedures for the year ended 31 March 2020. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on CPCA's:	
► Financial statements	On 27 November 2020 we issued an unqualified opinion. The financial statements give a true and fair view of the financial position of CPCA as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on CPCA's arrangements for securing economy, efficiency and effectiveness	We responded to two pieces of correspondence which we took into account in performing the 2019/20 value for money audit. We concluded that CPCA has put in place proper arrangements to secure value for money in its use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	CPCA's annual governance statement was consistent with our understanding of CPCA.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to CPCA, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of CPCA's Whole of Government Accounts return (WGA).	CPCA was below the testing threshold and we therefore had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of CPCA communicating significant findings resulting from our audit.	We issued an Audit Results Report to the 27 November 2020 Audit and Governance Committee. This followed our Audit Progress Report to the July 2020 Committee meeting.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued the certificate of completion of the audit on 27 November 2020.

Fees

In our Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We have quantified the proposed final fee in Section 8 of this letter and provided supporting information to the Section 73 Officer, who has subsequently agreed the additional fees. This is now subject to approval by PSAA.

We would like to take this opportunity to thank CPCA staff for their assistance during the course of our work and in particular given the challenging period they faced as a result of the Covid-19 pandemic. Their acceptance of a collaborative approach enabled us to complete the 2019/20 audit by working remotely.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of CPCA. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Reports to the Audit and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for CPCA.

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 11 March 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements of CPCA; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements CPCA has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement (AGS) is misleading or not consistent with our understanding of CPCA;
  - Any significant matters that are in the public interest;
  - Any written recommendations to CPCA, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of CPCA

CPCA is responsible for preparing and publishing its statement of accounts accompanied by an AGS. In the AGS, CPCA reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

CPCA is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

CPCA's Statement of Accounts is an important tool for CPCA to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited CPCA's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 November 2020.

Our detailed findings were reported to the 27 November 2020 Audit and Governance Committee. The key issues identified as part of our audit were as follows.

Significant risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Audit and Governance Committee.
Incorrect treatment of capital expenditure as revenue	We tested a sample of expenditure and were satisfied that it was correctly accounted for.

Other audit risks

Pension liability valuation – In 2019/20 CPCA became an admitted body to the Cambridgeshire Pension Fund, administered by Cambridge County Council. We reported an understatement of the net liability of £0.170 million on the pension liability as a result of an updated Cambridgeshire Pension Fund asset valuation. CPCA did not update the accounts on the basis that the amounts involved were not material.

Going concern – CPCA has assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made appropriate disclosure in the statements.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be 2% of Gross Expenditure on provision of services and performance materiality at 75% of planning materiality.
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in excess of 5% of planning materiality.

Materiality	
Planning	£1.42 mn
Performance	£1.07 mn
Reporting	£0.071 mn

Section 4

Value for Money

Value for Money

We are required to consider whether CPCA has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider LG bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year.

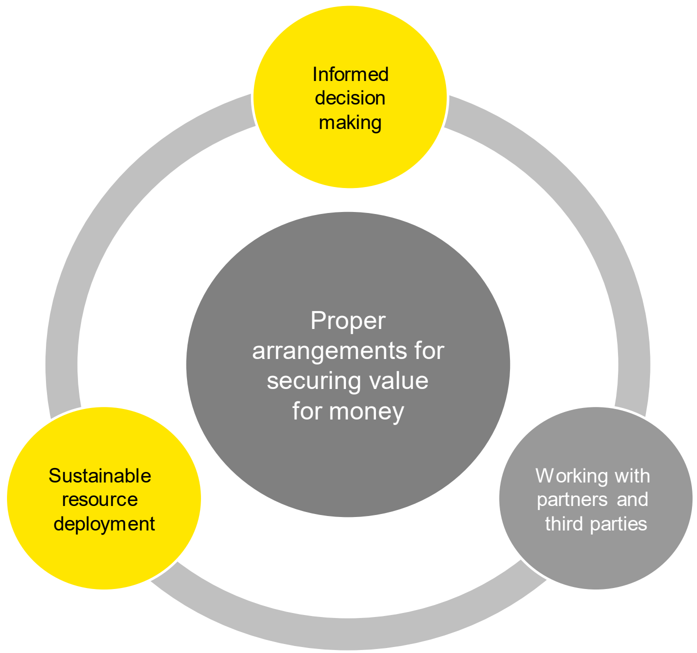
Only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion. We identified no such evidence for CPCA and therefore identified no significant VFM risk associated to Covid-19.

We performed the procedures outlined in our audit plan where we identified one significant risk in relation to CPCA's arrangements for delivering an ambitious capital programme. In addition, during the year, we received two separate pieces of correspondence which we took into account under our value for money responsibilities.

We reported our detailed findings on value for money in the Audit Results Report and other reporting to the Audit and Governance Committee.

We did not identify any significant weaknesses in CPCA's arrangements for ensuring it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We had no matters to report about CPCA's arrangements to secure economy, efficiency and effectiveness in its use of resources.



Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on CPCA's Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. The Authority was below the threshold for requiring audit procedures on its WGA submission this year. We had no matters to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in CPCA's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We had no matters to report.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by CPCA or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires CPCA to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Reports to the Audit and Governance Committee on 27 November 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We adopted a fully substantive audit approach and therefore did not test the operation of controls.

Section 6

Focused on your future

Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on CPCA is summarised in the table below.

Council responsibilities for value for money

CPCA is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, CPCA is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, CPCA tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes providing a commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether CPCA has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to CPCA a commentary against specified reporting criteria (see below) on the arrangements CPCA has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How CPCA plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How CPCA ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How CPCA uses information about its costs and performance to improve the way it manages and delivers its services.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that CPCA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to CPCA's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Section 8

Audit Fees

Audit Fees

Fees

Following communications to the Audit and Governance Committee on the changes and challenges impacting the audit profession, in June 2020 we communicated to the Section 73 Officer our view of the inadequacy of the current scale fee to enable us to deliver a quality audit in accordance with the NAO Code. In our view the scale fee should be increased by £2,695 for CPCA and we provided details supporting our rationale. At the same time we opened dialogue with PSAA on our view of scale fees nationally and shared with them proposed revisions for all our local government audited bodies. We include our proposed increase to the scale fee in the tables below. We remain in dialogue with PSAA over the scale fees. We include our proposed revision to the scale fee in the table below.

In addition, in the Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We quantified the proposed fee and provided supporting information to the Section 73 Officer who has now agreed the additional fees. We will now seek approval from PSAA.

	Final fee 2019/20 (£)	Planned fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee – Code work	26,950	26,950	26,950
Additional work:			-
- VFMC significant risk	5,909	5,750	3,500
- Significant risk – incorrect capitalisation of revenue expenditure and REFCUS	2,480	1,000-2,000	1,500
- IAS 19 audit of pension liability & disclosures	4,004	3,700	-
- Correspondence from the public	3,297	3,050	-
- Impact of Covid-19	1,755	1,500	-
- Mayor’s request in respect of correspondence with MRGLG	3,912	3,900	-
- CEO Severance	-	-	1,000
- Area of focus – Business Board transfer	-	-	2,400
Total current scale and additional fees	**48,307**	**TBC**	**35,350**
Proposed increase to the scale fee	2,695		

EY | Assurance | Tax | Transactions | Consultancy

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

EY-000070901-01 (UK) 07/18. CSG London.

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY | JAMES PALMER CAMBRIDGESHIRE & PETERBOROUGH MAYOR

Agenda Item No: 9

Treasury Management Strategy

To:	Audit and Governance Committee
Meeting Date:	29 January 2021
From:	Robert Emery Deputy Chief Finance Officer
Recommendations:	The Audit and Governance Committee is recommended to:
	a) Review the Treasury Management and Capital Strategies for 2021-22
	b) Note the in-year performance against the adopted 2020-21 prudential and treasury indicators

1. Purpose

1.1 The purpose of the report is for the Audit and Governance Committee to review the proposed Treasury Management and Capital Strategies for 2021/22 and in year performance against the prudential indicators included within the 2020/21 Treasury Management and Capital Strategies.

2. Background

2.1 According to its Terms of Reference, the Audit and Governance Committee shall “ensure there is effective scrutiny of the treasury management strategy and policies in accordance with CIPFA’s Code of Practice”.

2.2. The Treasury Management in the Public Services: Code of Practice 2017 recommends that Members receive regular reports on the authority’s treasury management policies, practices, and activities, including a mid-year review progress report.

3. 2020-21 Treasury Management Strategy Update

3.1. The Combined Authority Board on the 27 January 2021 has been asked to approve an amendment to the 2020/21 Treasury Management Strategy revising the investment limit for a particular class of investment, Money Market Funds (MMFs).

3.2. The Combined Authority’s treasury advisors, Arlingclose have revised their investment advice for Money Markets Funds (MMFs), removing the upper limit on sums invested in MMFs in total.

The previously advised limit was in place because individual funds make similar underlying investments which limits the diversification achievable across the ultimate entities invested in, even when money is invested with different funds.

3.3. Unlike fixed term deposits, MMFs allow for near immediate investment and withdrawal of funds and are therefore a key tool to manage credit and liquidity risks. Given the increased risk in other sectors, due to the current economic climate, the relative risk of MMFs is decreased and so the advice has changed to remove the upper limit on investments.

3.4. In line with previous Arlingclose advice, the 2020/21 Treasury Management Strategy limits total investments in MMFs to £100m, with a £25m limit per individual fund. The Board is asked to approve that the £100m total investment limit be removed, whilst retaining the £25m limit per individual fund in line with the advice from our advisors. Holding increased balances with MMFs will allow the CPCA to maximise the security and liquidity of investments whilst protecting yield by reducing the exposure risk of the Combined Authority’s investments to negative rates that may be offered by similarly liquid investments such as bank accounts and balances held with the UK Government.

3.5. This change is also reflected in the proposed 2021/22 Treasury Management Strategy

4. 2021-22 Strategies

4.1. The following strategies have been updated for 2021/22 and are attached as Appendix 2.

(a) Capital Strategy: To provide a high-level overview for elected members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.
(b) Treasury Management Strategy: Being the management of the Authority's cash flows, borrowing and investments and the associated risks.
(c) Investment Strategy: To meet the requirements of statutory guidance in which the Authority would support local public services by lending to or buying shares in other organisations, or to earn investment income.
(d) Minimum Revenue Provision Statement: An MHCLG requirement to approve an MRP Statement each year to ensure that capital expenditure is financed over a reasonable period

4.2. The Committee is asked to review the suite of strategies ahead of being taken to the Board for approval.

5. Treasury Management Strategy Prudential Indicators

5.1. The Prudential Code underpins the system of capital finance. Prudential indicators are developed to ensure that:

a) Capital investment plans are affordable;
b) All external borrowing and other long-term liabilities are within prudent and sustainable levels; and
c) Treasury management decisions are taken in accordance with professional good advice.

5.2. The current performance against the adopted Prudential Indicators is shown at appendix 1.

5.3. The figure for Indicator 9 - Liquidity risk as at 31.8.20 is different to the figure previously reported as it now includes DMO investments. The figures for Indicator 10 – Interest Rate Risk have changed due to the calculation now including the impact of investments maturing within the next 12 months. Actual performance is outside the limit due to higher levels of liquid funds being held to meet operational needs. The limit is increased to £1.5m in the proposed 21/22 Treasury Management Strategy. It should be noted that the calculation of the indicator doesn't take account of forecast spend – the full impact would only materialise if no further spend was undertaken in the next 12 months.

6. Investment Activity

6.1. Surplus cash balances are held in accordance with the principles set out in the Treasury Management Strategy in order to support strategic investment decisions, the Capital Programme, and the Medium-Term Financial Plan (MTFP).

6.2. The table below shows the investments held with Approved Investments in accordance with the Treasury Management Strategy as at 31 March 2020, 31 August 2020 and 31 December 2020.

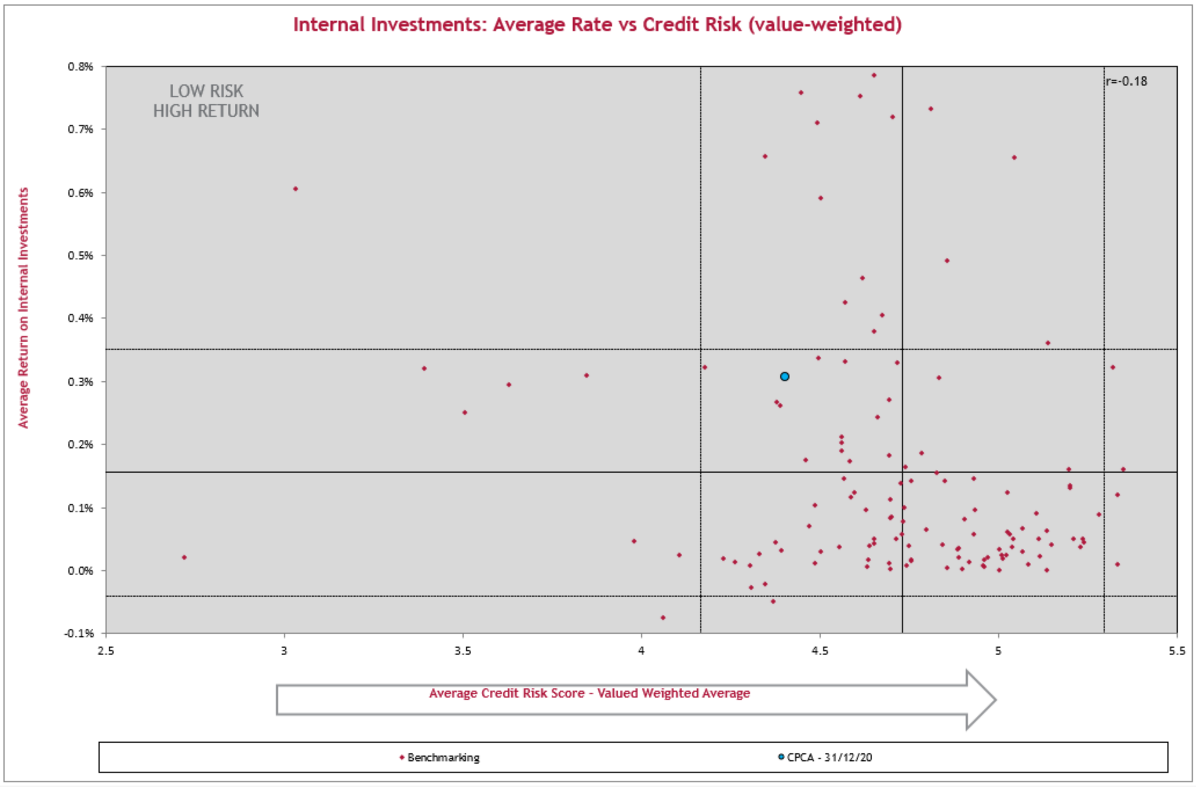
Principal outstanding		As at 31.03.2020		As at 31.08.2020		As at 31.12.2020	
Fixed Term Deposits: Local Authority:		£k	Av. Rate	£k	Av. Rate	£k	Av. Rate
	less than 3 months	69,000	0.88%	40,000	0.85%	50,000	0.50%
	4-6 months	40,000	0.84%	50,000	0.50%	18,000	1.05%
	7-9 months	25,000	0.84%	15,000	0.78%	30,000	0.44%
	10-12 months	15,000	0.97%	20,000	0.44%	23,000	0.33%
	Total Local Authority	**149,000**	**0.87%**	**125,000**	**0.64%**	**121,000**	**0.47%**
DMO	less than 3 months	0	0	46,720	0.01%	26,400	0.01%
Access:							
Call Account		921	0.00%	14,888	0.00%	100	0.01%
Money Market Funds		10,000	0.47%	30,000	0.13%	40,000	0.02%
Total Investments		**159,921**	**0.84%**	**216,608**	**0.39%**	**187,500**	**0.31%**

DMO (formally the Debt Management Account Deposit Facility) is a government department which offers risk-free deposits for Local Authorities.

6.3. In response to the global economic recession due to COVID, the Bank of England, in line with many national and international institutions, has reduced the cost of borrowing (the base rate) to historically low levels. The cost of debt from the Bank has a knock-on effect on lending rates across the country.

6.4. As we predominantly lend to other Local Authorities this reduction in the cost of debt is further exacerbated as Government has made substantial cash injections into the sector and projects have been put on hold, reducing the demand for borrowing and thus the rates achievable. As deals mature they are likely to be replaced at lower rates so even if the rates stabilise, the average rate of the portfolio will continue to fall.

6.5. The investment portfolio compares favourably against benchmarking data provided by our treasury management advisors, Arlingclose. The graph below shows value weighted average credit risk of the portfolio against the average return. The expectation would be that as credit risk increases, returns increase. The Authority's portfolio has a below average credit risk, whilst enjoying returns close to one standard deviation above the average. The maturity of a portfolio will impact on this metric as more established portfolios with investments taken out longer ago will benefit from the higher rates on offer at the time.



Significant Implications

7. Financial Implications

7.1. None other than those highlighted in the main body of the report.

8. Legal Implications

8.1. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

9. Other Significant Implications

9.1. None

10. Appendices

10.1. Appendix 1 – Prudential Indicators update December 2020

10.2. Appendix 2 – Cambridgeshire and Peterborough Combined Authority Draft Strategies 2021-22

11. Background Papers

11.1. Cambridgeshire and Peterborough Combined Authority Treasury Management Strategy 2020-21

11.2. Cambridgeshire and Peterborough Combined Authority Capital Strategy 2020-21

Appendix 1 – Prudential indicators update December 2020

Prudential Indicators

The Code requires the Combined Authority to set a range of Prudential Indicators. The information provided below sets out the current performance as at 31 December 2020 against the Indicators adopted by the Combined Authority as set out in the Treasury Management Strategy and Capital Strategy.

Indicator 1 - Capital Expenditure in £ millions.
The table shows the Combined Authority's capital expenditure for current and following years. Estimates for future years are taken from the 21/22 Medium Term Financial Plan, the 20/21 forecast is taken from the November Budgetary Control Report.

	2020/21 budget	2020/21 Forecast	2021/22 budget
Capital investments	208.06	182.31	132.37
TOTAL	208.06	182.31	132.37

Indicator 2 – Capital Financing in £ millions.
All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

	2020/21 budget	2020/21 Forecast	2021/22 budget
Grant Funding	201.32	175.57	104.86
Usable Capital Receipts	6.74	6.74	27.51
Debt	0	0	0
TOTAL	**208.06**	**182.31**	**132.37**

Indicator 3 – Gross Debt and the Capital Financing Requirement in £ millions.
The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The Authority currently has no debt and therefore no CFR. Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases) are shown below, compared with the capital financing requirement.

	31.3.2021 budget	31.3.2021 forecast	31.3.2022 budget
Debt (incl. PFI & leases)	0	0	0
Capital Financing Requirement	0	0	0

Indicator 4 – Borrowing and the Liability Benchmark in £ millions.
To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark is calculated showing the lowest risk level of borrowing. Given that there are no current plans to borrow, this benchmark is currently set at the existing debt cap, but will be kept under review.

	31.3.2021 budget	31.3.2021 forecast	31.3.2022 budget
Outstanding borrowing	0	0	0
Liability benchmark	84.81	84.81	84.61

Indicators 5 and 6 - Authorised limit and operational boundary for external debt in £ millions.
The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

	2020/21 limit	2020/21 forecast	2021/22 limit
Authorised limit - total external debt	84.61	0	84.61
Operational boundary - total external debt	74.61	0	74.61

Indicator 7 - Proportion of financing costs to net revenue stream
Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from general government grants.

	2020/21 budget	2020/21 Forecast	2021/22 budget
Financing costs (£m)	£2.56m	0	0
Proportion of net revenue stream	15.1%	0%	0%

Indicator 8 – Credit Risk Indicator.
The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. (low is good)

Credit risk indicator	Target	As at 31.3.2020	As at 30.6.2020	As at 31.12.2020
Portfolio average credit rating	6 (A)	3.96 (AA-)	3.77 (AA-)	4.40 (AA-)

This indicator is provided as at 30.6.20 as it is calculated by our Treasury Management advisors as part of our quarterly benchmarking. The credit rating of investments as at 31.08.2020 is not materially different from the position as at 30.06.2020.

Indicator 9 – Liquidity Risk Indicator.
The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target	As at 31.3.2020	As at 31.8.2020	As at 31.12.2020
Total cash available within 3 months	£50m	£182.7m	£133.5m	£101.5m

Indicator 10 – Interest Rate Risk Indicator.
This indicator is set to control the Authority's exposure to interest rate risk.

Interest rate risk indicator	Limit	As at 31.3.2020	As at 31.8.2020	As at 31.12.2020
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m	£1.1m	£1.6m	£1.3m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m	(£1.1m)	(£1.6m)	(£1.3m)

The figure for 1% fall assumes negative rates.

Indicator 11 - Principal sums invested for periods longer than a year (excluding loans).
The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits set and performance against them are as follows:

Price risk indicator	2020/21 limit	2021/22 limit	2022/23 limit
Limit on principal invested beyond year end	£160m	£50m	£50m
As at 31.3.2020	£0m	£0m	£0m
As at 31.8.2020	£40m*	£0m	£0m
As at 31.12.2020	£86m*	£10m*	£0m

**The table above includes both deals outstanding as at the relevant dates, plus forward investments which had been agreed at those dates.*

Cambridgeshire and Peterborough Combined Authority

Capital Strategy Report 2021/22

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where an Authority spends money on assets, such as property, shares in companies or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2021/22, the Authority is planning capital expenditure of £132.37m as summarised below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget
Capital investments	86.39	182.31	132.37	114.86
TOTAL	86.39	182.31	132.37	114.86

The budget figures for 2021/22 and 2022/23 are taken from the Approved Capital Expenditure Programme as set out and described in the Medium-Term Financial Plan approved by the Board in January 2021.

Governance:

The Combined Authority's Assurance Framework sets out:

(a) How the seven principles of public life shape the culture within the Combined Authority in undertaking its roles and responsibilities in relation to the use and administration of the Cambridgeshire and Peterborough Investment, incorporating the Single Pot funding. This culture is developed and underpinned by processes, practices and procedures.

(b) Alongside the Combined Authority's constitution, it sets out the respective roles and responsibilities of the Combined Authority, the Business Board (the Local Enterprise Partnership) and statutory officers.

(c) The key processes for ensuring accountability, including public engagement, probity, transparency, legal compliance and value for money.

(d) How potential investments to be funded through the Cambridgeshire and Peterborough Medium Term Financial Plan, incorporating the Single Pot, will be appraised, prioritised, approved, signed off and delivered.

(e) The processes for oversight of projects, programmes and portfolios and how the progress and impacts of these investments will be monitored and evaluated.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget
Grant Funding	86.01	175.57	104.86	84.84
Usable Capital Receipts	0.38	6.74	27.51	30.02
Debt	0	0	0	0
TOTAL	**86.39**	**182.31**	**132.37**	**114.86**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

The Combined Authority currently does not have any debt but is considering debt funded schemes within the Housing directorate, and significant work is being done to establish what the financing requirements will be for the Cambridgeshire Autonomous Metro and whether Combined Authority borrowing may have a role in this. A provision is included in the budget and MTFP from 2022/23 to service approximately £40m of debt costs (based on 25-year maturity rates from PWLB as at 20th January 2021) which would cover any charges incurred from borrowing for the potential Housing directorate debt funded programme.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The Authority currently has no debt and therefore no CFR.

The Authority expects that its capital financing requirement will be nil on 31st March 2021 and in line with the MHCLG Guidance expects to charge no MRP in 2021/22.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP. Where loans are debt funded, where creditworthiness of the borrower decreases or the asset value drops below the loan value, MRP will be charged on the shortfall.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent.

As at 31 December 2020, the Authority had no borrowing and £187.5m of treasury investments earning an average interest rate of 0.31%

Borrowing strategy: The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5 to 2.5%).

Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement (see above).

Table 3: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget
Debt (incl. PFI & leases)	0	0	0	0
Capital Financing Requirement	0	0	0	0

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Authority expects to comply with this in the medium term.

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark is calculated showing the lowest risk level of borrowing. Given that there are no current plans to borrow, this benchmark is currently set at the existing debt cap, but will be kept under review.

Table 4: Borrowing and the Liability Benchmark in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget
Outstanding borrowing	0	0	0	0
Liability benchmark	0	0	84.61	84.61

Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 5: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit – total external debt	84.61	84.61	84.61
Operational boundary – total external debt	74.61	74.61	74.61

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and staff, who must act in line with the treasury management strategy approved by the Board. Regular reports on treasury management activity are presented to the Audit and Governance Committee who are responsible for ensuring effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice.

Investments for Service Purposes

The Authority makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Authority's subsidiaries that provide services. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for service loans to at least break even after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Head of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and will therefore also be approved as part of the capital programme.

Commercial Activities

The Combined Authority currently does not invest in commercial property for financial gain.

Liabilities

The Authority is committed to making future payments to cover its pension fund deficit (valued at £1.55m). There are currently no commitments to make future payments in relation to debt or other major liabilities. There is currently no requirement to cover risks of other provisions, financial guarantees or major contingent liabilities.

Governance: Decisions on incurring new discretional liabilities are taken by Directors in consultation with the Head of Finance. The risk of liabilities crystallising and requiring payment is monitored by the Finance team and reported to the Audit and Governance committee. New liabilities/loans are reported to the Board for approval/notification as appropriate.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from general government grants.

Table 6: Prudential Indicator: Proportion of financing costs to net revenue stream

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget
Financing costs (£m)	0	0	0	£0.73m
Proportion of net revenue stream	0%	0%	0%	4.1%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend into the future. The Head of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable as demonstrated in the Medium-Term Financial Plan.

Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Finance is a qualified accountant with over 25 years post qualification experience. The Authority pays for staff to study towards relevant professional qualifications and for all qualified staff to keep up to date with relevant 'continuing professional development'.

Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Cambridgeshire and Peterborough Combined Authority

Treasury Management Strategy Statement 2021/22

Introduction

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

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Economic background: The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Table 1 Arlingclose Interest Rate Forecast – January 2021

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Local Context

On 31st December 2020 the Authority held £nil borrowing and £187.5m of treasury investments.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall from current levels (end of Dec 2020) of £188m to £23m (end Mar 2025) as capital funding is used to finance capital expenditure as set out in the Capital programme and the Medium-Term Financial Plan.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

The Authority expects that its capital financing requirement will be nil on 31st March 2021 and in line with the MHCLG Guidance it expects to charge no MRP in 2021/22. The Combined Authority has no current requirement to borrow over the lifetime of the Medium-Term Financial Plan and so the forecast CFR until 2025 is £nil.

Borrowing Strategy

The Authority is not currently in receipt of any loans. The balance sheet forecast shows that the Authority does not expect to need to borrow in 2021/22. However, the Authority may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £84.61 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: The Authority's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of any future debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The government has reversed the 1% increase in PWLB rates introduced in October 2019. As a result of this, the Authority expects to borrow any long-term loans from the PWLB, but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Combined Authority's Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Board.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this in the future and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £161m and £236million, and levels are expected to be subject to the drawdown of funds to support the delivery of the Combined Authority's priorities and objectives as set out in the Business Plan and the Medium-Term Financial Plan.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority will continue to diversify into more secure and/or higher yielding asset classes during 2021/22. Due to current liquidity requirements, an increasing proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, and money market funds.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£25m	Unlimited
Secured investments *	25 years	£25m	Unlimited
Banks (unsecured) *	13 months	£15m	Unlimited
Building societies (unsecured) *	13 months	£15m	£25m
Registered providers (unsecured) *	5 years	£15m	£50m
Money market funds *	n/a	£25m	Unlimited
Strategic pooled funds	n/a	£25m	£100m
Real estate investment trusts	n/a	£25m	£50m
Other investments *	5 years	£15m	£25m

This table must be read in conjunction with the notes below

Minimum Credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times..

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

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £25m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: In order to minimise the risk of a single default against available reserves, the maximum that will be lent to any one organisation (other than the UK Government) will be £25m. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £25m in operational bank accounts would be taken account of against the relevant investment limits when making treasury management investments, but the limits in this strategy do not apply to service investments.

Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker’s nominee account	£50m per broker
Foreign countries	£25m per country

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium-term financial plan and cash flow forecast.

Treasury Management Indicators

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

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	6 (A)

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£50m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.5m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

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

Principal sums invested for periods longer than a year (excluding loans): The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2021/22	2022/23	2023/24
Limit on principal invested beyond year end	£160m	£50m	£50m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 113A of the Local Democracy, Economic Development and Construction Act 2009 removes much of the uncertainty over combined authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2021/22 is £0.23 million, based on the expected investment portfolio.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then consideration will be given to transferring a portion of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Portfolio Holder for Investment and Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Existing Investment & Debt Portfolio Position

	31 Dec 2020 **Actual Portfolio £m**	**Average Rate %**
External borrowing:		
Public Works Loan Board	**0**	
Local authorities	**0**	
LOBO loans from banks	**0**	
Other loans	**0**	
Total external borrowing	**0**	
Total gross external debt	0	
Treasury investments:		
Banks & building societies (unsecured)	0.1	0.01
Government (incl. local authorities)	147.4	0.39
Money Market Funds	40.0	0.02
Total treasury investments	187.5	0.31
Net debt	(187.5)	

Cambridgeshire and Peterborough Combined Authority
Investment Strategy Report 2021/22

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services, skills or economic growth by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from grants) before it pays for its expenditure in cash (e.g. through payroll, invoices and grants). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £161m and £236m during the 2021/22 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries and local businesses to support local public services, to support the provision of affordable housing and to stimulate local economic growth and skills development.

Revolving Housing Fund

In September 2018, the Combined Authority Board approved the creation of a £40m revolving fund from the £100m fund receivable from central government to bring forward 2,000 affordable homes by March 2022.

The £40m fund will gradually grow over time through financial investment, including the provision of loans to re-invest into more housing schemes.

Key objectives and principles in the service investments within the Housing Strategy include the following:

- To accelerate housing delivery to support Economic Growth.
- To create Prosperous Places where people want to live.
- To expand housing choices and opportunity through promotion of steps to promote home ownership using alternative tenure structures, potential starter homes and more shared ownership schemes.
- Promoting all Housing (not just affordable) that is in addition to the existing development pipeline and encourage accelerated delivery within adopted local plans.
- Be creative, in using a range of financial delivery mechanisms that have not traditionally been a method through which public sector organisations have supported and delivered housing. This aims to create a revolving fund that will outlast the £170m programme that will help to meet the longer term target of an additional 100,000 homes by 2037.
- An ambition to deliver 40,000 affordable homes within the same time period, to help address the affordability of housing, particularly for key workers, first time buyers and those in low and medium paid employment who cannot easily access the home ownership market without family or other third party support. This will support more sustainable communities.
- To support the spread of Community Land Trusts (CLT's) which support their local communities.
- Ensuring that housing supports the most vulnerable by offering increased choice and affordability for those requiring specialist care.
- Supporting infrastructure to enable new housing schemes through a co-ordinated approach, particularly regarding transport by making strong links across strategies and projects within the Combined Authority.
- Encouraging best use of all property assets, bringing homes that are currently excluded from the market back into market use and supporting the creation of new homes from existing built assets not currently in residential use.
- To consider using the combined authorities borrowing powers to help to accelerate schemes using financial mechanisms, where it aligns to the overall Combined Authority Investment strategy.

Housing 'Top Up' Fund

The Combined Authority can borrow to deliver capital programmes if this borrowing is in line with the prudential framework. While the Combined Authority has not borrowed to date, there is an opportunity to borrow to on-loan to housing developers which would enable a larger number of projects to be advanced simultaneously than the £40m revolving housing fund alone would allow.

Recycled Growth Fund Loans

The CPCA offers capital loans to local companies, and other Local Authorities, on the advice of the Business Board, where the projects are considered to achieve value for money and fit with the strategic direction set out in the Local Industrial Strategy. As the majority of Growth Funds were awarded prior to March 2021 the extent of new loans that will be available in 2021-22 is likely to be quite small.

Security of Service Loans

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2020 actual			2021/22
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Subsidiaries	0.000	0.000	0.000	20.000
Local businesses	39.662	0.643	39.019	90.000
TOTAL	**39.662**	**0.643**	**39.019**	**110.000**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority would assess the risk of loss before entering into and whilst holding service loans. All future loans would be subject to the following risk assessment and mitigating actions:

1) An appropriate level of due diligence, to include the use of external advisors where appropriate.
2) An appropriate loan period and timing of repayments
3) The calculation of an interest rate that would represent 'value for money', be of 'no detriment' to the Combined Authority, and to minimise the risk of State Aid challenge
4) Approval being subject to a business case, due diligence, and loan agreement to the satisfaction of the Chief Executive, Monitoring Officer and Chief Finance Officer.
5) The business case would be reviewed to include focus on:
    a. Impact of existing loans and charges on assets
    b. Accuracy and reasonableness of Cashflow and profit forecasts
    c. Ambition of future sales targets and income to repay loan
    d. Provisions/allowances for contingency, inflation
    e. Review of credit worthiness of business and collateralisation of loan
6) For housing development loans, first legal charge over land and assets
7) Regular review and valuation of the assets
8) Drawdown subject to a gateway process
9) Consideration of options of parent company guarantees
10) Consideration of obligations of S106 agreements

All loans are subject to approval by the Combined Authority Board.

<u>Service Investments: Shares</u>

Contribution: The Council invests in the shares of its subsidiaries and local businesses to support local public services and stimulate local economic growth.
The CPCA has approved a number of service equity investments as part of both the CAM programme and the Business and Skills agenda, all but one of these investments had been made by the end of March 2021, with only the Getting Building Fund investment into the second phase of the University of Peterborough outstanding.

University of Peterborough Phase 1

Equity investment into a Joint Venture along with Peterborough City Council and Anglia Ruskin University with a total CPCA investment of £23.5m.

University of Peterborough Phase 2

This project was put forward to Government in response to a call for projects in 2020-21, and £14.6m of grant was awarded to the CPCA (the Getting Building Fund). The majority of this funding is being invested into a Joint Venture with Photocentric to deliver a Research and Development centre on the University of Peterborough Campus.

The Business Growth Service

Approved by CPCA and involves equity investment of up to £7.7m of CPCA and LGF funding to deliver support to local businesses and improve the skills offering in the Combined Authority area.

Other Growth Fund equity investments

There are a number of smaller equity investments made within the Growth Fund programme, these total £5.7m currently awarded with a further pipeline of up to £1.0m.

CAM Special Purpose Vehicle

In 2020-21 the Combined Authority Board approved the creation of a special purpose vehicle company as the preferred option for carrying forward the CAM project. In light of this £2.0m of CPCA funds have been invested to set up the company, with an expected further £2.0m in 2021-22.

Capital Growth Scheme Investments

The Business Growth Service is tasked with the delivery of a £11m fund for a combination of grants and small scale equity investments into SMEs. This programme is to provide working capital to fund growth projects which unlock growth in jobs or scale a company to secure more income generation and jobs at a level where private sector equity finance is lacking due to its focus on high-tech, Intellectual Property (IP) based start-ups and much higher growth rates, which typically favour much higher value equity investments of at least £250k up to £2m and higher.

It is expected that the Business Growth Service will hold these investments, so they are not included in the limits in this strategy, however they are mentioned as the Business Growth Service is wholly owned by the CPCA.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	31.3.2020 actual			2021/22
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	0.000	0.000	0.000	60.000
Local businesses	0.341	0.208	0.133	10.000
TOTAL	**0.341**	**0.132**	**0.209**	**70.000**

Risk assessment: The Authority would assess the risk of loss before entering into, and whilst holding, share agreements. The approach followed would be to consider:

1) an assessment of the market that the Authority would be competing in, the nature and level of competition, how market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements;
2) whether to use external advisors;
3) risk assessment based on credit ratings and the use of credit rating agencies;
4) the monitoring of risk in accordance with the Combined Authority's risk management policy.

Liquidity: Investments will be subject to the drawdown requirements of the Capital programme as set out in the Medium-Term Financial Plan and as monitored in the monthly cashflow forecast.

Non-specified Investments: Shares (defined as equity and equity like instruments) are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

The Authority currently does not invest in property with the intention of making a profit that will be spent on local public services and has no immediate plans to do so. In the event that commercial property investments would be held in future, the Authority would consider the following:

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Risk assessment: The Authority would assess the risk of loss before entering into and whilst holding property investments. The approach followed would be to consider:

1) A full due diligence exercise covering an assessment of: the property business plan, including sensitivity and scenario analysis; the credit quality of incumbent tenants (if any); the local property market, including demand, availability and voids in current similar commercial stock; the area's economic outlook and potential; how market/customer needs will evolve over time; barriers to entry and exit and any ongoing investment requirements;
2) Where in-house expertise does not cover the relevant investment opportunity, we will use external advisors for all/part of the due diligence and any other specialist areas;

3) External advice will be monitored by relevant officers, including adherence to deadlines, regular advisory meetings and adherence to project objectives;
4) The risk assessment will include credit ratings as part of the overall in-depth credit assessment of tenants. The creditworthiness of tenants will be monitored on a regular basis, using external expertise where necessary to give a credit view and an early warning of possible issues. As landlord, the Authority will maintain open dialogue with tenants, including discussion of financial stress;
5) The Authority will monitor the performance of the property asset against business plans throughout the life of the asset, assessing its performance and contribution of continued investment against the probable returns from sale.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. Each potential investment would be considered to ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and were the Authority to enter into any, a process in line with that taken for service loans, as set out above, would be followed, including a calculation of a loss allowance where appropriate.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down.

Table 3: Total investment exposure in £millions

Total investment exposure	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	159.921	90.000	50.000
Service investments: Loans	39.019	50.000	50.000
Service investments: Shares	0.133	40.000	60.000
TOTAL INVESTMENTS	1799.073	180.000	160.000
Commitments to lend	6.902	00.000	0.000
TOTAL EXPOSURE	205.975	180.000	160.000

How investments are funded:

To date, all investments are funded by the Authority's useable reserves and income received in advance of expenditure. There are no immediate plans to borrow.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 4: Investment rate of return

Investments net rate of return	**2019/20 Actual**	**2020/21 Forecast**	**2021/22 Forecast**
Treasury management investments	0.811%	0.412%	0.184%
Service investments - Loans	2.578%	2.949%	3.034%
ALL INVESTMENTS	0.943%	0.784%	0.888%

Cambridgeshire and Peterborough Combined Authority

Minimum Revenue Provision Statement 2021/22

Annual Minimum Revenue Provision Statement 2021/22

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

- The Authority expects that its capital financing requirement will be nil on 31st March 2021 and in line with the MHCLG Guidance it expects to charge no MRP in 2021/22.

- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

- Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP.

- The table below summarises the MRP Policy.

Capital Expenditure Incurred	MRP Policy
Expenditure funded by unsupported borrowing	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.
Finance Leases	Charged in relation to asset life on the annuity method
Secured Loans to third parties repaid in bullet form.	No MRP will be charged as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount, the Authority will recognise the associated impairment and will charge MRP on the outstanding balance.

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY | JAMES PALMER CAMBRIDGESHIRE & PETERBOROUGH MAYOR

Agenda Item No:10

Report title: Audit and Governance Committee Work Programme

To:	Audit and Governance Committee
Meeting Date:	29 January 2021
Public report:	Public Report
From:	Anne Gardiner Scrutiny Officer
Recommendations:	Note the work programme for the Audit and Governance Committee for the 2020/21 municipal year attached at Appendix 1 and agree to regularly review the work programme at each meeting. Note the proposed work programme for 2021/22 attached at Appendix 2. Voting arrangements: N/A

1. Purpose

1.1 To provide the Committee with the draft work programme for Audit and Governance Committee, looking ahead to the 2020/21 municipal year.

2. Background

2.1 In accordance with the Constitution, the Audit and Governance Committee must perform certain statutory duties including the approval of accounts, governance arrangements, financial reporting and code of conduct.

2.2 A draft work programme which outlines when these decisions are taken for the current municipal year is attached at Appendix 1.

2.3 The document attached at Appendix 1 provides commentary on items received by the Committee over the last two municipal years (including the current one) alongside future items to be received throughout the remainder of this municipal year. This includes those items that must be considered annually by the committee.

2.4 The document attached at Appendix 2 provides the proposed work programme for 2021/22, this includes items that must be considered annually by the committee.

3. Financial Implications

3.1

4. Legal Implications

4.1 None.

5. Appendices

6.1 Appendix 1 – Work Programme

6.2 Appendix 2 – Proposed Work Programme for 2021/22

AUDIT AND GOVERNANCE COMMITTEE
WORK PROGRAMME 2019/20 – 2020/21

Meeting Date 2020/21	Item	COMMENTS
29 January 2021 Virtual Meeting	**Combined Authority Board Update** - **Update on MCHLG work**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit – Progress Report	Report from the Internal Auditors to provide an update on the progress of the current internal audits including Cyber Security and IT systems and the attempted fraud
	External Audit – Draft Audit Plan	The Committee receive the draft Audit Plan and comment whether the planned audit is aligned with the Committee's expectations.
	Treasury Management Strategy Update	The Committee receive the report which provides the Audit and Governance Committee with an update on the Combined Authority (CPCA)'s

		Treasury Management Strategy.
Meeting Date	**Item**	**COMMENTS**
5th March 2021 - Extra Meeting		
	Minutes	
	Code of Corporate Governance	Code of Corporate Governance is based upon the CIPFA / SOLACE publication entitled “Delivering Good Governance in Local Government: Framework 2016 Edition.” An annual review is undertaken each year.
	Assurance Framework	The Assurance Framework is a set of systems, processes and protocols, which along with standing orders, financial regulations, departmental procedures, and codes of practice is linked in a hierarchy of management and financial control procedures, which clearly define the responsibilities of members and the duties of the CPCA’s officers, consultants and partners. – Approved annually.
	External Audit – Outline Audit Plan	
	Information Governance Update	
Meeting Date	**Item**	**COMMENTS**
6 April 2021 Venue: TBA		

	WORKSHOP	INTERNAL & EXTERNAL AUDIT
	Combined Authority Board Update	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Independent Commission on Climate Change	Update requested at 31 July 2020 meeting
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit – Progress Report	Report from the Internal Auditors to provide an update on the progress of the current internal audits.
	External Audit – Audit Plan	The Committee receive and approve the final audit plan prepared by the external auditors
	Governance (decision-making) Review	Committee to receive an update to review any issues/concerns raised (Executive Committees) etc
	Adult Education Budget	
ITEMS TO BE SCHEDULED		
	Governance Review of the Business Board	

	Trading Companies (Development Session)	AUTUMN/WINTER 2020/21
	Audit & Governance Committee Annual Constitution Review	AUTUMN 2021
	Member Skills Training (joint session with the O&S Committee)	WINTER 2021
	Occurred Meetings – Work Programmes	
19 July 2019 **Fenland District Council**	**Internal Auditors Annual Report**	The Committee considered and endorsed the Annual Report and Opinion from Internal Audit for the year ended 31st March 2019
	Statement of Accounts 2018/19 and External Audit Final Results	The Committee resolved that: i) That the Chief Executive circulate the draft statutory notice to the members of the Audit and Governance Committee prior to publication. ii) That the Chief Executive liaise with all affected constituent Councils and send a letter to government expressing their dissatisfaction with the auditors performance and the impacts this has had on each Council. iii) That the Chair of the Audit and Governance Committee write to the Partner leading the Ernst and Young Government and Public Sector Assurance team expressing the Committee extreme disappointment. iv) That the Committee receive and approve, in principle, the final Statement of Accounts.

	v) That the Committee agree to the additional recommendations below: a) Note that the Combined Authority's external auditors are not able to guarantee that they will have completed their audit of the accounts for 2018/19 before the statutory deadline of 31 July 2019 for the publication of the statement of accounts together with any certificate or opinion from the external auditors; b) Note that if it is not possible to publish the statement of accounts on time the law requires the Combined Authority to publish as soon as reasonably practicable on or after the deadline a notice stating that it has not been able to publish the statement of accounts and its reasons for this; c) Authorise the Chief Finance Officer in consultation with the Chair of Audit and Governance Committee, as and when the final Audit Opinion is provided by the external auditors, to make any minor amendments to the statement of accounts arising from the final Audit Opinion and to authorise the Chief Finance Officer and Chair of Audit and Governance to then sign and publish the statement of accounts together with any certificate or opinion from the external auditors; d) In the event that amendments arising from the

		final Audit Opinion would constitute a "material adjustment" to the final accounts as defined in the external auditor's final audit plan a further report is to be brought to Committee; and e) That the Committee receive and approve the Annual Governance Statement 2018/19 as included within the statement of accounts.
	Chairman's Annual Audit Report	The Annual Report of the Chair of the Committee be submitted to the Combined Authority Board was approved.
	Internal Audit Plan	The Committee considered and endorsed the Annual Report and Opinion from Internal Audit for the year ended 31st March 2019.
	Value for Money Report	The Committee noted the Combined Authority's approach to delivering value for money.
	Treasury Management Annual Report	The Committee reviewed the actual performance for the year to 31st Match 2019, against the adopted prudential and treasury indicators.
	Human Resources Risk Reduction Update	The Committee noted the update.
	Work Programme	The Committee agreed updates to the work programme and noted the report.
Meeting Date 2019/20	**Item**	**COMMENTS**
27 September 2019 Cambridge City Council	**Audit Results Reports & Statement of Accounts 2018/19**	The Committee received the audit results report for the year ended 31st March 2019.
	Transport Acceleration and Risk Report	The Committee noted the officers' assessment of the impact of the accelerated delivery strategy on

		project risk and the wider measures put in place by the Authority to manage project risk.
	Medium-Term Financial Plan and Business Plan	The report was noted.
	Combined Authority Board Update	The Committee noted the update.
	Business Board Update	The Committee noted the priorities and objectives of the Business Board.
	Internal Audit Update	The progress report from Internal Audit was considered. Internal Audit would provide timelines and progress indicators in future reports and seek The Committee's approval to any programme changes.
	Governance Review Report	The proposed new governance arrangements for the Combined Authority had been considered and the Committee's Work Programme be amended to include a future report to the Committee reviewing the effectiveness of the proposed new governance arrangements.
	Risk Register and Performance Update	The Committee noted the Performance Reporting processes that are in place for the Combined Authority. The Committee requested that the Performance Reporting Dashboard is presented to the Board on a quarterly basis and recommend any proposed changes be noted. The Committee requested that the proposed changes to the Corporate Risk Register be reported to the next Board meeting for approval.
	Report on Freedom of Information, Whistleblowing and Fraud	The Committee would advise how the Combined Authority communicated the Whistleblowing Policy and encouraged its use.

	Response to National Audit Office Consultation	The proposed changes to the Code of Audit practice and the potential impact on reporting to the Committee for local audit work was noted.
	Work Programme	The update was noted.
Meeting Date 2019/20	**Item**	**COMMENTS**
16 December 2019 South Cambridgeshire District Council	**Assurance Framework**	A paper will be produced for Audit & Governance Committee meeting in March 2020. The Committee noted the revised Assurance Framework
	Corporate Risk Register	The proposed revised Strategy and changes to the Corporate Risk Register were recommended.
	Data Protection Policy	An update from the Data Protection Officer be put on Audit & Governance Committee Work Programme for December 2020. That the Combined Authority would keep an eye on implications on data protection after Brexit. The Data Protection Policy report was recommended
	Internal Audit Progress Report	That an update report be brought back to Audit & Governance Committee in March 2020, including a procedure for urgent items. That a reminder email be sent to Members regarding themes for internal auditors for the following year. The Committee noted the report.
	Adult Education Budget and Assurance Programme	An annual insight to be received by the Committee every year.

		A briefing session to be organised for the Committee in summer/autumn 2020. The Adult Education Budget Audit and Assurance Programme, along with the arrangements, was noted.
	Treasury Management Strategy Update	The update was reviewed by the Committee.
	Combined Authority Board Update	The Committee noted the update.
	Work Programme	The Committee agreed updates to the work programme and noted the report.
Meeting Date 2020/21	**Item**	**COMMENTS**
26 May 2020 Remote Meeting	**Confirmation of Membership of the Audit & Governance Committee**	Membership was the same as in the last municipal year and there had been no changes amongst substitute members. The Committee noted Fenland DC Annual General Meeting was to be held on 17 June, which could signal change in Fenland DC membership of the Committee.
	Combined Authority Board Update	The Committee noted the update.
	Statement of Accounts 2019/20	The statement of accounts to be presented at the 31 July 2020 meeting of the Committee will be circulated to members two-weeks in advance of the meeting.
	External Audit Update	A further report will be received at the 31 July 2020 meeting of the Committee.
	Internal Audit Update	The Internal Audit with opinion be received at the 31 July 2020 meeting of the Committee.
	Draft Annual Report of the Chair of the Audit & Governance Committee	The report was approved by the Committee for submission to the CA Board meeting on 5 August 2020, subject to the correction of a typographical error.

	Corporate Risk Register	The Committee recommended climate change is included on the on the Risk Register in future.
	Complaints Procedures	The Committee noted the revised procedures and, with the addition of the contact details of 'street scene' issues for the borough, city and district councils, approve them to the CA Board.
	Treasury Management Strategy	The Committee noted the strategies.
	Trading Companies	A development session on the trading companies be held, possibly in autumn 2020.
	Revised Guide for Project Management	The Committee received and noted the revised guide.
	Work Programme	The Committee requested greater clarity on the work programme for future meetings.
	Urgent Item: Lancaster Way	The Committee responded positively to the request for an independent review. and that this has no impact on the delivery of the project. The Committee is open to an Extraordinary meeting, if necessary, with the proviso that sufficient time is afforded to enable the Committee to have all the background information it requires.
Meeting Date 2020/21	**Item**	**COMMENTS**
31 July 2020	**Appointment of a Vice-Chairman of the Audit**	A Vice-Chairman of the Committee would be

Remote Meeting	**& Governance Committee**	appointed at the meeting on 31 July as the Combined Authority Board Annual Meeting was not until 3 June and a decision on a Vice-Chairman appointment would be ratified at that meeting.
	Combined Authority Board Update	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting. The report to be presented to the 31 July 2020 meeting of the Committee to include the top three to four risks that are improving/getting worse.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit 2020/21	A separate paper on how the Combined Authority is to take Internal Audit forward after the Service Level Agreement with Peterborough City Council concludes was requested for this 20 meeting.
	Internal Audit – Annual Report	A report provided by the Internal Auditors on the effectiveness of the Authority's systems of governance; risk management and internal control.
	External Audit Final Results	The Committee receive the audit results report from the external auditors.

	Annual Governance Statement	Explains how the Combined Authority has complied with the Local Code of Governance and meets the requirements of the Accounts and Audit (England) Regulations 2015 Regulation 6.1(b) – usually received along with the Annual Financial Report.
	Draft Financial Statements 2019/20	The Committee receives the report which asks them to: a) approve the audited Statement of Accounts 2017/18 b) Receive and approve the Annual Governance Statement 2017/18
	Independent Commission on Climate Change	Committee to receive a report on the procedures undertaken in the appointment of the Independent Chair of the Commission
Meeting Date 2020/21	**Item**	**COMMENTS**
2 October 2020 **Venue: TBA**	**Combined Authority Board Update**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.

	Internal Audit Plan 2020/21	Report from the Internal Auditors on the Internal Audit Plan for the municipal year.
	Financial Statement 2019/20 and External Audit Update	
	Treasury Management Strategy Review	The Committee receive the report which review the current performance against the prudential indicators included within the Treasury Management Strategy.
27 November 2021 **Virtual Meeting**		
	DEVELOPMENT SESSION	**VALUE FOR MONEY**
	The Mayor of the Combined Authority	Mayor James Palmer will be in attendance
	Combined Authority Board Update	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Lancaster Way Update	
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their

		upcoming work programme.
	Internal Audit: Internal Audit Plan	Report from the Internal Auditors to provide an update on the progress of the current internal audits.
	External Audit and Opinion 2019/20	To receive the External Audit and Opinion from Ernst & young for the previous financial year.
	End of Year Financial Statements 2019/20	
	Adult Education Budget	

AUDIT AND GOVERNANCE COMMITTEE
WORK PROGRAMME 2021/22

Meeting Date 2020/21	Item	COMMENTS
25 June 2021 Virtual Meeting	**Combined Authority Board Update**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit – Progress Report	Report from the Internal Auditors to provide an update on the progress of the current internal audits
	Draft Annual Report of the Chair of the Audit & Governance Committee	
	Draft Accounts	Committee to review the draft accounts.
Meeting Date	**Item**	**COMMENTS**

25th June 2021	RESERVE MEETING	
Meeting Date	**Item**	**Comment**
DEVELOPMENT SESSION: ROLE OF THE COMMITTEE		
30 July 2021 Venue: TBA		
	Combined Authority Board Update	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit – Progress Report	Report from the Internal Auditors to provide an update on the progress of the current internal audits.
	External Audit – Audit Plan	The Committee receive and approve the final audit plan prepared by the external auditors
	Internal Audit – Annual Report	A report provided by the Internal Auditors on the effectiveness of the Authority's systems of governance; risk management and internal control.
	Value-for-Money	Statement report on Value for Money to be

		considered including 'benefit-cost-ratio'.
	External Audit Final Results	The Committee receive the audit results report from the external auditors.
	Annual Governance Statement	Explains how the Combined Authority has complied with the Local Code of Governance and meets the requirements of the Accounts and Audit (England) Regulations 2015 Regulation 6.1(b) – usually received along with the Annual Financial Report.
	Annual Constitution Review	
	Annual Financial Report	The Committee receives the report which asks them to: a) approve the audited Statement of Accounts 2017/18 b) Receive and approve the Annual Governance Statement 2017/18
	Annual Audit report	The Audit and Governance Committee review annually the work undertaken by the committee to ensure best practice and effectiveness for the Combined Authority is being achieved.
Meeting Date 2020/21	**Item**	**COMMENTS**
DEVELOPMENT SESSION: TRADING COMPANIES		
24 Sept 2021 **Venue: TBA**	**Combined Authority Board Update**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.

	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit – Progress Report	Report from the Internal Auditors to provide an update on the progress of the current internal audits.
	Governance Review – Business Board	
	External Audit – Annual Audit Letter	The Committee receive the annual audit letter which communicates the key issues arising from external auditors work in carrying out the audit of the statement of accounts for the Cambridgeshire and Peterborough Combined Authority.
	Internal Audit – Progress Report	Update to be delivered by the Internal Auditors.
	Treasury Management Strategy Review	The Committee receive the report which review the current performance against the prudential indicators included within the Treasury Management Strategy.
Meeting Date	**Item**	**Comment**
DEVELOPMENT SESSION: ROLE OF AUDIT ON MAJOR PROJECTS		

26th November 2021	**Combined Authority Board Update**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit – Progress Report	Report from the Internal Auditors to provide an update on the progress of the current internal audits.
	External Audit – Draft Audit Plan	The Committee receive the draft Audit Plan and comment whether the planned audit is aligned with the Committee's expectations.
	Treasury Management Strategy Update	The Committee receive the report which provides the Audit and Governance Committee with an update on the Combined Authority (CPCA)'s Treasury Management Strategy.
	Assurance Framework	Committee agreed in May 2019 that the A/Framework be presented to Committee on 6-month basis.
	Complaints, Fraud, Whistleblowing Update	The Committee receive an bi-monthly report which provides an update on the number of complaints

		received, incidents of fraud and reports of whistleblowing.
28th January 2022	**RESERVE MEETING**	
Meeting Date	**Item**	**Comment**
11th March 2022	**Combined Authority Board Update**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	External Audit – Audit Plan	The Committee receive and approve the final audit plan prepared by the external auditors
	Internal Audit Plan:	Details of audit activity for the following year.
	Treasury Management Strategy Summary	The Committee receive the report asks for comments comment on the draft Treasury Management Strategy.
	Code of Corporate Governance	Code of Corporate Governance is based upon the CIPFA / SOLACE publication entitled “Delivering

		Good Governance in Local Government: Framework 2016 Edition." An annual review is undertaken each year.
	Assurance Framework	The Assurance Framework is a set of systems, processes and protocols, which along with standing orders, financial regulations, departmental procedures, and codes of practice is linked in a hierarchy of management and financial control procedures, which clearly define the responsibilities of members and the duties of the CPCA's officers, consultants and partners. – Approved annually.
Meeting Date	**Item**	**Comment**
27 May 2022	**Combined Authority Board Update**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Occurred Meetings – Work Programmes	
19 July 2019	**Internal Auditors Annual Report**	The Committee considered and endorsed the

Fenland District Council		Annual Report and Opinion from Internal Audit for the year ended 31st March 2019
	Statement of Accounts 2018/19 and External Audit Final Results	The Committee resolved that: i) That the Chief Executive circulate the draft statutory notice to the members of the Audit and Governance Committee prior to publication. ii) That the Chief Executive liaise with all affected constituent Councils and send a letter to government expressing their dissatisfaction with the auditors performance and the impacts this has had on each Council. iii) That the Chair of the Audit and Governance Committee write to the Partner leading the Ernst and Young Government and Public Sector Assurance team expressing the Committee extreme disappointment. iv) That the Committee receive and approve, in principle, the final Statement of Accounts. v) That the Committee agree to the additional recommendations below: a) Note that the Combined Authority's external auditors are not able to guarantee that they will have completed their audit of the accounts for 2018/19 before the statutory deadline of 31 July 2019 for the publication of the statement of accounts together with any certificate or opinion from the external auditors;

	b) Note that if it is not possible to publish the statement of accounts on time the law requires the Combined Authority to publish as soon as reasonably practicable on or after the deadline a notice stating that it has not been able to publish the statement of accounts and its reasons for this; c) Authorise the Chief Finance Officer in consultation with the Chair of Audit and Governance Committee, as and when the final Audit Opinion is provided by the external auditors, to make any minor amendments to the statement of accounts arising from the final Audit Opinion and to authorise the Chief Finance Officer and Chair of Audit and Governance to then sign and publish the statement of accounts together with any certificate or opinion from the external auditors; d) In the event that amendments arising from the final Audit Opinion would constitute a "material adjustment" to the final accounts as defined in the external auditor's final audit plan a further report is to be brought to Committee; and e) That the Committee receive and approve the Annual Governance Statement 2018/19 as included within the statement of accounts.
Chairman's Annual Audit Report	The Annual Report of the Chair of the Committee be submitted to the Combined Authority Board was

		approved.
	Internal Audit Plan	The Committee considered and endorsed the Annual Report and Opinion from Internal Audit for the year ended 31st March 2019.
	Value for Money Report	The Committee noted the Combined Authority's approach to delivering value for money.
	Treasury Management Annual Report	The Committee reviewed the actual performance for the year to 31st Match 2019, against the adopted prudential and treasury indicators.
	Human Resources Risk Reduction Update	The Committee noted the update.
	Work Programme	The Committee agreed updates to the work programme and noted the report.
Meeting Date 2019/20	**Item**	**COMMENTS**
27 September 2019 Cambridge City Council	**Audit Results Reports & Statement of Accounts 2018/19**	The Committee received the audit results report for the year ended 31st March 2019.
	Transport Acceleration and Risk Report	The Committee noted the officers' assessment of the impact of the accelerated delivery strategy on project risk and the wider measures put in place by the Authority to manage project risk.
	Medium-Term Financial Plan and Business Plan	The report was noted.
	Combined Authority Board Update	The Committee noted the update.
	Business Board Update	The Committee noted the priorities and objectives of the Business Board.
	Internal Audit Update	The progress report from Internal Audit was considered. Internal Audit would provide timelines and progress indicators in future reports and seek The

		Committee's approval to any programme changes.
	Governance Review Report	The proposed new governance arrangements for the Combined Authority had been considered and the Committee's Work Programme be amended to include a future report to the Committee reviewing the effectiveness of the proposed new governance arrangements.
	Risk Register and Performance Update	The Committee noted the Performance Reporting processes that are in place for the Combined Authority. The Committee requested that the Performance Reporting Dashboard is presented to the Board on a quarterly basis and recommend any proposed changes be noted. The Committee requested that the proposed changes to the Corporate Risk Register be reported to the next Board meeting for approval.
	Report on Freedom of Information, Whistleblowing and Fraud	The Committee would advise how the Combined Authority communicated the Whistleblowing Policy and encouraged its use.
	Response to National Audit Office Consultation	The proposed changes to the Code of Audit practice and the potential impact on reporting to the Committee for local audit work was noted.
	Work Programme	The update was noted.
Meeting Date 2019/20	**Item**	**COMMENTS**
16 December 2019 South Cambridgeshire District Council	**Assurance Framework**	A paper will be produced for Audit & Governance Committee meeting in March 2020. The Committee noted the revised Assurance Framework

	Corporate Risk Register	The proposed revised Strategy and changes to the Corporate Risk Register were recommended.
	Data Protection Policy	An update from the Data Protection Officer be put on Audit & Governance Committee Work Programme for December 2020. That the Combined Authority would keep an eye on implications on data protection after Brexit. The Data Protection Policy report was recommended
	Internal Audit Progress Report	That an update report be brought back to Audit & Governance Committee in March 2020, including a procedure for urgent items. That a reminder email be sent to Members regarding themes for internal auditors for the following year. The Committee noted the report.
	Adult Education Budget and Assurance Programme	An annual insight to be received by the Committee every year. A briefing session to be organised for the Committee in summer/autumn 2020. The Adult Education Budget Audit and Assurance Programme, along with the arrangements, was noted.
	Treasury Management Strategy Update	The update was reviewed by the Committee.
	Combined Authority Board Update	The Committee noted the update.
	Work Programme	The Committee agreed updates to the work programme and noted the report.
Meeting Date	**Item**	**COMMENTS**

2020/21		
26 May 2020 Remote Meeting	**Confirmation of Membership of the Audit & Governance Committee**	Membership was the same as in the last municipal year and there had been no changes amongst substitute members. The Committee noted Fenland DC Annual General Meeting was to be held on 17 June, which could signal change in Fenland DC membership of the Committee.
	Combined Authority Board Update	The Committee noted the update.
	Statement of Accounts 2019/20	The statement of accounts to be presented at the 31 July 2020 meeting of the Committee will be circulated to members two-weeks in advance of the meeting.
	External Audit Update	A further report will be received at the 31 July 2020 meeting of the Committee.
	Internal Audit Update	The Internal Audit with opinion be received at the 31 July 2020 meeting of the Committee.
	Draft Annual Report of the Chair of the Audit & Governance Committee	The report was approved by the Committee for submission to the CA Board meeting on 5 August 2020, subject to the correction of a typographical error.
	Corporate Risk Register	The Committee recommended climate change is included on the on the Risk Register in future.
	Complaints Procedures	The Committee noted the revised procedures and, with the addition of the contact details of 'street scene' issues for the borough, city and district councils, approve them to the CA Board.
	Treasury Management Strategy	The Committee noted the strategies.
	Trading Companies	A development session on the trading companies be held, possibly in autumn 2020.
	Revised Guide for Project Management	The Committee received and noted the revised guide.

	Work Programme	The Committee requested greater clarity on the work programme for future meetings.
	Urgent Item: Lancaster Way	The Committee responded positively to the request for an independent review. and that this has no impact on the delivery of the project. The Committee is open to an Extraordinary meeting, if necessary, with the proviso that sufficient time is afforded to enable the Committee to have all the background information it requires.
Meeting Date 2020/21	**Item**	**COMMENTS**
31 July 2020 Remote Meeting	**Appointment of a Vice-Chairman of the Audit & Governance Committee**	A Vice-Chairman of the Committee would be appointed at the meeting on 31 July as the Combined Authority Board Annual Meeting was not until 3 June and a decision on a Vice-Chairman appointment would be ratified at that meeting.
	Combined Authority Board Update	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to

		agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting. The report to be presented to the 31 July 2020 meeting of the Committee to include the top three to four risks that are improving/getting worse.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit 2020/21	A separate paper on how the Combined Authority is to take Internal Audit forward after the Service Level Agreement with Peterborough City Council concludes was requested for this 20 meeting.
	Internal Audit – Annual Report	A report provided by the Internal Auditors on the effectiveness of the Authority's systems of governance; risk management and internal control.
	External Audit Final Results	The Committee receive the audit results report from the external auditors.
	Annual Governance Statement	Explains how the Combined Authority has complied with the Local Code of Governance and meets the requirements of the Accounts and Audit (England) Regulations 2015 Regulation 6.1(b) – usually received along with the Annual Financial Report.
	Draft Financial Statements 2019/20	The Committee receives the report which asks them to: a) approve the audited Statement of Accounts 2017/18 b) Receive and approve the Annual Governance

		Statement 2017/18
	Independent Commission on Climate Change	Committee to receive a report on the procedures undertaken in the appointment of the Independent Chair of the Commission
Meeting Date 2020/21	**Item**	**COMMENTS**
2 October 2020 Venue: TBA	**Combined Authority Board Update**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit Plan 2020/21	Report from the Internal Auditors on the Internal Audit Plan for the municipal year.
	Financial Statement 2019/20 and External Audit Update	
	Treasury Management Strategy Review	The Committee receive the report which review the current performance against the prudential indicators included within the Treasury Management Strategy.
27 November		

2021 Virtual Meeting		
	DEVELOPMENT SESSION	**VALUE FOR MONEY**
	The Mayor of the Combined Authority	Mayor James Palmer will be in attendance
	Combined Authority Board Update	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Lancaster Way Update	
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Internal Audit: Internal Audit Plan	Report from the Internal Auditors to provide an update on the progress of the current internal audits.
	External Audit and Opinion 2019/20	To receive the External Audit and Opinion from Ernst & young for the previous financial year.
	End of Year Financial Statements 2019/20	
	Adult Education Budget	