

Audit and Standards Committee

Tuesday 10 December 2019 at 10.00am

Meeting to be held at: Committee Room B, South Shields Town Hall and Civic Offices, Westoe Road, South Shields, NE33 2RL

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AGENDA

Page No

1. Apologies for Absence

2. Declarations of Interest

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

- | | |
|---|----------------|
| 3. Minutes of the meeting held on 10 September 2019 | 1-6 |
| 4. External Audit Progress Report | 7-18 |
| 5. Closure of Accounts 2019/20 Timetable and Progress Update | 19-26 |
| 6. NECA Budget Proposals | 27-112 |
| 7. Strategic Risk Register | 113-167 |
| 8. Date and Time of Next Meeting | |

10.00am, Tuesday 14 April 2020 – Committee Room 1,
Sunderland Civic Centre

Contact Officer: Jonathan Lunness Tel: 0191 424 7536
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Audit and Standards Committee

Agenda Item 3

10 September 2019

Meeting held at Town Hall and Civic Offices, Westoe Road, South Shields
NE33 2RL

Present:

Independent Members: M Scrimshaw (Chair)

Councillors B Kellett (Durham), J McClurey (Gateshead), P Stewart (Sunderland) and Hobson (South Tyneside).

Officers: Eleanor Goodman (NECA – Principal Accountant), Paul Darby (NECA Deputy Chief Finance Officer), Tracey Davis (Senior Manager – Assurance (Sunderland City Council) and Karen Connolly (Strategy and Democracy Officer, South Tyneside Council) and Jonathan Lunness (NECA Strategy and Democratic Services Assistant)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Hetherington, Bell and George Clark.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF THE MEETING HELD ON 2 April 2019

RESOLVED - That the Minutes of the meeting held on 2 April 2019 be approved as a correct record and be signed by the Chair.

4. AUDIT LETTER 2018/19

Submitted: Report by the External Auditor, Mazars (previously circulated and a Copy attached to official minutes)

The Deputy Chief Finance Officer on behalf of the External Auditor introduced the report, referring the committee's attention to Appendix 1, the Annual Audit Letter which set out Mazars findings and conclusions of the audit. The auditor's had issued their unqualified opinion on the financial statements indicating that they represented a true and fair view of NECA's financial position as at 31 March 2019 and of its income and expenditure for the year end.

The Auditors had also given an unqualified opinion on NECA's Value for Money arrangements and no material issues were identified in relation to their work, in all significant respects, NECA was assessed as having put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

A letter from the External Auditor was included as Appendix 2 which confirmed that an additional fee will be charged in relation to the 2018/19 Audit, where extra work was required to ensure the opinion on the 2018/19 accounts was given by the deadline of 31 July 2019. The main cause of additional work was the creation of the North of Tyne Combined Authority on 2 November 2018 which resulted in a high number of technical issues and required a significant amount of extra work to be undertaken. In addition a significant number of amendments in relation to the NECA Group draft accounts had been made, mainly resulting from the changes made within the NEXUS and NEMOL accounts which had impacted on the Group accounts of NECA.

It was noted that the Auditors had not used their powers under s24 of the Local Audit and Accountability Act to issue a report in the public interest or to make written recommendations to NECA.

The Auditors and Committee commended the Finance Team for their co-operation in meeting the deadline. The Committee were informed that an additional NECA Finance officer was now in post, who would be assisting with the preparation of the accounts and the Audit process going forward. This would address the concerns raised by the auditors again this year with regards to limited resources within the NECA Finance Team.

A Member informed the Committee that Nexus had approached the government to request a four to five year settlement to allow them to plan ahead. So far Nexus had not received any notification on the Revenue

Grant. It was suggested that this item be included within the Risk Register.

The Committee referred to the revenue generated from Tyne Tunnel tolls and the potential for fraud being a risk, they questioned whether the correct systems were in place to cover this. The officer informed the Committee that this matter would be subject to discussion at the next Nexus Audit Committee.

RESOLVED – That the report be received.

5. CLOSURE OF ACCOUNTS 2019/20

Submitted: Report by the Chief Finance Officer (previously circulated and a copy attached to official minutes)

At the last meeting of the Committee the final accounts for 2018/19 were presented along with the external auditor's report. The report identified the delays in producing the final accounts which led to the full set final statements being issued one day before the meeting. Members felt that it was extremely difficult to fulfill their governance role in relation to the accounts as well as having concerns over the communication throughout the accounts production and audit process.

The main reason behind the additional work was the establishment of the North of Tyne Combined Authority on 2 November 2018, which resulted in a high number of technical issues and required a significant amount of extra work to be undertaken. In addition a significant number of amendments in relation to the NECA Group draft accounts had been made, mainly resulting from the change made within the NEXUS and NEMOL accounts which had impacted on the Group accounts.

An additional Finance officer was now in post to assist with the workload going forward. A detailed timetable for 2019/20 was being prepared, this would be shared with Mazars and Nexus for agreement. The timetable will include planned communications with members and key milestones. The report identified proposals for the draft accounts to be presented to members in June next year, with the final statements being presented for approval alongside the external auditor's opinion at the end of July in line with statutory reporting deadlines. The rationale being that members would be able to concentrate on any changes as a result of the external audit process at the July meeting.

RESOLVED That:

- i. the committee note the contents of this report and
- ii. that a further meeting of the Audit and Standards Committee be scheduled for June 2020 to allow the Committee early sight of the draft Accounts in advance of receiving the final statements and the auditors opinion in July.

6. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

Submitted: Report by the Senior Manager – Assurance (Sunderland City Council) (previously circulated and a copy attached to official minutes)

The Internal Audit Services for NECA is now provided by Sunderland City Council and the review had been undertaken by the Council's External Auditor, Mazars. The findings of the review were presented to the Committee.

The External Audit had concluded that the Internal Audit service provided by Sunderland City Council was compliant with the requirements of the Public Sector Internal Audit Standards and CIPFA application note. The review had also highlighted areas of good practice in relation to the Integrated Assurance Framework, the Audit Manual and MKI e-audit system and the Proficiency of the internal auditors. Members were assured therefore that they could rely on the work of the internal audit service from Sunderland City Council

RESOLVED: That the results of the review of the effectiveness of the Internal Audit Service provided by Sunderland City Council be noted.

7. INTERNAL AUDIT PLAN 2019/20

Submitted: Report by the Senior Manager – Assurance (Sunderland City Council) (previously circulated and a copy attached to official minutes)

The report set out the proposed Internal Audit Strategy, Audit Plan and performance measures for 2019/20 for NECA.

The draft Audit Strategy was detailed in Appendix 1 of the report, which set out how the service will be delivered, the roles and responsibilities of each party and Internal Audit's role in providing assurance regarding the activities of NECA to its stakeholders.

The draft Audit Plan for 2019/20 was set out in Appendix 2 of the report and

covered the Internal Audit's key performance measures and outlined the proposed internal audit work for NECA.

The two audits were planned for the year: a review of governance arrangements and a financial assurance review.

RESOLVED: That the Internal Audit Plan for 2019/20 be agreed.

8. DRAFT STRATEGIC RISK REGISTER

Submitted: Report by the Senior Manager – Assurance (Sunderland City Council) (previously circulated and a copy attached to official minutes)

The report set out the strategic risks identified for the North East Combined Authority. The strategic risks are defined as those matters which, if they were to occur could have material adverse impact upon the achievement of NECA's objectives. Eight strategic risks had been identified which were set out in the report together with the actions and controls which had been put in place to ensure that the risks were being managed to a satisfactory level.

The strategic risk register will continue to be reviewed to record, monitor and report the strategic risks to the Audit and Standards Committee at 3 monthly intervals, with support from officers.

RESOLVED – That:

- i. the report be noted and
- ii. In Appendix 2, part 4, Governance Arrangements, the Audit on the governance arrangements this year should be added to the mitigating actions for the risk.

9. DATE AND TIME OF NEXT MEETING

Tuesday 10 December 2019 at 2:00pm

Audit and Standards Committee

Date: 10 December 2019

Agenda Item 4

Subject: External Audit Progress Update

Report of: External Auditor

Executive Summary

This report provides the Audit and Standards Committee with an update on progress in delivering the audit for 2019/20, planning for which has already commenced.

The report also highlights key emerging national issues and developments which may be of interest to Members of the Committee, including:

- (a) Consultation on the New Code of Audit Practice 2020/21;
- (b) Press release from Public Sector Audit Appointments Ltd (PSAA) relating to the increase in delays in issuing audit opinions;
- (c) CIPFA publication with guidance on Income Generation for Local Authorities; and
- (d) Ministry of Housing, Communities and Local Government (MHCLG) review of local authority financial reporting and external audit.

Recommendations

The Audit and Standards Committee is recommended to note the contents of this report.

Audit and Standards Committee

1. Background Information

- 1.1 This report provides the Audit and Standards Committee with an update on progress in delivering the audit for 2019/20, planning for which has already commenced. Attached at Appendix 1 is the report from the External Auditor, Mazars.

2 Proposals

- 2.1 The Audit Progress report provides an update on planning for the 2019/20 audit and a summary of key emerging national issues and developments which may be of interest to Members of the Committee, including:
- (a) Consultation on the New Code of Audit Practice 2020/21;
 - (b) Press release from Public Sector Audit Appointments Ltd (PSAA) relating to the increase in delays in issuing audit opinions;
 - (c) CIPFA publication with guidance on Income Generation for Local Authorities; and
 - (d) Ministry of Housing, Communities and Local Government (MHCLG) review of local authority financial reporting and external audit.

3. Reasons for the Proposals

- 3.1 The Audit Progress Update is provided in line with point 7 of the Audit and Standards Committee Terms of Reference as set out in the NECA Constitution: “The Audit and Standards Committee will receive external audit reports, including the Annual Audit Letter, Fee Letter, Annual Governance Report, and other external audit reports as appropriate”.

4. Alternative Options Available

- 4.1 The report is presented for information and provides an update on planning for the 2019/20 audit and a summary of key emerging national issues and developments pertinent to the role of the Committee.

5. Next Steps and Timetable for Implementation

Audit and Standards Committee

5.1 Work planned for early 2019/20 is set out in the report. The detailed Audit Strategy Memorandum will be presented to the Committee at the next meeting.

6. Potential Impact on Objectives

6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

7.1 There are no financial implications arising from this report. The 2019/20 scale fee set by Public Sector Audit Appointments is £18,709, which is reflected in the NECA budget.

8. Legal Implications

8.1 There are no legal implications arising from this report.

9. Key Risks

9.1 There are no risk management implications arising from this report.

10. Equality and Diversity

10.1 There are no equality and diversity implications arising from this report.

11. Crime and Disorder

11.1 There are no crime and disorder implications arising from this report.

12. Consultation/Engagement

12.1 Consultation has taken place with NECA statutory officers, and officers from NECA, NTCA and Nexus are involved with planning for the 2019/20 audit.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Audit Progress Update

15. Background Papers

Audit and Standards Committee

15.1 None

16. Contact Officers

16.1 Jim Dafter, Senior Manager, Mazars, jim.dafter@mazars.co.uk, 07815 876 042

17. Sign off

- 17.1
- Head of Paid Service: ✓
 - Monitoring Officer: ✓
 - Chief Finance Officer: ✓

Audit Progress Report

North East Combined Authority

December 2019

Year Ending 31 March 2020





CONTENTS

1. **Audit progress**
2. **National publications**

This document is to be regarded as confidential to North East Combined Authority. It has been prepared for the sole use of the Audit and Standards Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Standards Committee with an update on progress in delivering our responsibilities as your external auditors. The paper also seeks to highlight at Section 2 key emerging national issues and developments which may be of interest to Members of the Committee.

If you require any additional information regarding the issues included within this briefing, please contact any member of your engagement team.

Audit progress 2019/20

We have now begun to plan our 2019/20 audit and have recently met with key officers from the North East Combined Authority, the North of Tyne Combined Authority, Nexus and North East Metro Operations Limited to agree an efficient approach to deliver each audit and meet applicable deadlines.

In the next few weeks we will:

- hold internal planning meetings;
- hold update meetings with the finance team to agree the arrangements for the interim and final audit visits;
- discuss emerging technical issues with your team; and
- review minutes from NECA meetings to inform our financial audit and value for money conclusion risk assessment.

We plan to carry out interim testing during mid January which will include updating our core financial systems documentation and carrying out substantive testing of income and expenditure transactions for the first nine months of the year.

Our detailed Audit Strategy Memorandum will be presented to the Audit and Standards Committee in early 2020.

There are no matters to bring to your attention at this stage.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
National Audit Office (NAO)			
1	New Code of Audit Practice 2020/21 – Consultation	Consultation process underway for the new Code of Audit Practice that will apply for 2020/21 audits	5
Public Sector Audit Appointments Ltd (PSAA)			
2	Local Government audit opinions issued by 31 July 2019	Press release relating to the increase in delays in issuing audit opinions	5
Chartered Institute of Public Finance and Accountancy (CIPFA)			
3	A practical guide for Local Authorities on Income Generation (2019 edition)	Guidance to assist Councils	6
Ministry of Housing, Communities & Local Government (MHCLG)			
4	Review of local authority financial reporting and external audit	Announcement of a wide ranging review of financial reporting and external audit in the sector	6

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

1. New Code of Audit Practice 2020/21 – Consultation, September 2019

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

The consultation is taking place in two stages. The first has concluded and the second is currently underway with a deadline for responses of 22 November 2019. The NAO plans to finalise the Code by the end of 2019, ready to be laid in Parliament early in 2020. The new Code will apply from audits of local bodies' 2020/21 financial statements onwards.

The first stage of the consultation showed broad support for maintaining the principles-based nature of the Code, being the wider scope of public audit, independence and public reporting. However the responses highlighted that this should be supported by more detailed sector-specific guidance.

The second stage of the consultation is focusing on the text of the draft Code. In particular there are proposed changes to the way auditors report on arrangements to deliver value for money in the use of resources.

The Local Audit & Accountability Act 2014 places a specific duty on the local auditor to be satisfied whether the body they are auditing has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. In the current Code, this is referred to as work on arrangements to secure value for money.

Currently, the local auditor reports against a single overall criterion as to whether: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people." This is known as the value for money conclusion and is included in the Auditor Report included in Council's financial statements.

The consultation draft Code proposes changes to this reporting, with a more detailed commentary on the value for money arrangements being included in a new 'Auditor's Annual Report'.

Should the Council wish to respond to the consultation, the details are provided in the link below.

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/#>

2. Local Government audit opinions issued by 31 July 2019, August 2019

PSAA issued a press release after the end of the 2018/19 audit deadline to highlight the increase in the number of audit opinions that were not available by 31 July 2019. Reporting an increase in the number of opinions not available, the press release highlights the factors that have driven the increase in delays.

<https://www.psa.co.uk/2019/08/news-release-local-government-audit-opinions-delivered-by-31-july-2019/>

2. NATIONAL PUBLICATIONS – CIPFA

3. A practical guide for Local Authorities on Income Generation (2019 edition), CIPFA, July 2019

CIPFA's revised income generation guide reflects on the income generation issues of 2019 and the changes that are being made.

The issues that are examined in this publication include:

- the need for thorough testing and business cases to robustly assess income proposals;
- the impact of the 2018 MHCLG Statutory Investment Guidance; and
- how the pattern of local authority income is changing.

The guide will allow councils to maximise their income potential against a backdrop of Brexit uncertainties and other economic changes. With more authorities relying on income generation to balance their budgets, the guide can help finance staff stand at arms-length to ensure councils act prudently.

The publication also has practical guidance on income generation for different service areas and there is a full coverage of discretionary charging rules.

<https://www.cipfa.org/policy-and-guidance/publications/a-a-practical-guide-for-local-authorities-on-income-generation-2019-edition>

4. Review of local authority financial reporting and external audit, September 2019

The Ministry of Housing, Communities and Local Government announced in September that they had appointed Sir Tony Redmond to conduct a review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014. The review will not look at broader issues of local authority finances and sustainability.

The review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework to in order to determine:

- Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment;
- Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
- Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
- To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

As part of the review, MHCLG have issued a "Call for Views" which is linked below, along with the review's terms of reference.

<https://www.gov.uk/government/publications/review-of-local-authority-financial-reporting-and-external-audit-terms-of-reference>

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

CONTACT

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Audit and Standards Committee

Date: 10 December 2019

Agenda Item 5

Subject: Closure of Accounts 2019/20 – Timetable and Progress Update

Report of: Chief Finance Officer

Executive Summary

This report provides the Audit and Standards Committee with an update on planning for the 2019/20 Closure of Accounts, taking into account lessons learned from the 2018/19 closure process.

Initial meetings have been held with key stakeholders in the process, including North of Tyne Combined Authority (NTCA), Nexus and Mazars and a high-level timetable agreed. A summary of the closedown timetable is attached at Appendix 1 which includes details of how and when reports will be presented to the this Committee.

The report outlines how additional dedicated resources have been secured to work on NECA finance activity which will significantly increase capacity both to produce the accounts and to respond to audit queries in a more timely fashion than in any previous years, as well as improving business continuity and reducing reliance on key individuals. Knowledge sharing and training sessions have already begun and will continue in preparation for year end.

The additional resources available will also enable additional quality assurance and review to be built into the process which it is expected will reduce the number of errors present in the draft accounts and reduce the number of audit queries.

Early planning and audit testing, including systems walkthroughs, has been scheduled by Mazars for January and February 2020 which will take pressure off the main audit visit. Information sharing agreements have also been established and the closedown timetable now reflects the fact that the draft accounts will be presented for consideration by the NECA Audit & Standards Committee in June whilst the audit is underway. A further update on progress with Closure of Accounts will be presented to the Committee at the next meeting.

Recommendations

The Audit and Standards Committee is recommended to note the contents of this report.

Audit and Standards Committee

1. Background Information

- 1.1 This report provides an update to the Audit and Standards Committee with an update on planning for the 2019/20 Closure of Accounts, taking into account lessons learned from the 2018/19 closure process and further discussions that have taken place since the last meeting.

2 Proposals

Resources

- 2.1 A key issue raised by the external auditors in previous years has been the resources available to support both the completion of the accounts and in responding to audit queries. As reported to the last meeting, additional dedicated resources have been secured in the form of a Principal Accountant from Durham County Council being appointed to work on NECA.
- 2.2 Since the last meeting training and knowledge sharing sessions have been held between the NECA Finance Manager and the new NECA Principal Accountant and a session with the Strategic Finance Manager and Principal Accountant for the NTCA. Further sessions have been scheduled to continue this work over the coming months. This will include consideration of a common set of accounting policies across the two combined authorities.

Quality Assurance and Review

- 2.3 A further issue raised by the external auditors in their reports to the Audit and Standards Committee has been quality assurance and review. Although NECA made resources available to review the accounting statements, this was at the end of the process and the production of the detailed working papers and notes was largely restricted to one individual. This meant that any errors were not easily identified and increased the number of audit queries and corrections required.
- 2.4 For 2019/20, key closure of accounts tasks and specific notes to the accounts have been assigned to either the NECA Principal Accountant or the NECA Finance Manager, with one individual completing the work and the other reviewing it. A standard working paper template and checklist is being developed to aid this process. Part of this will involve documenting the task wherever possible through work instruction notes. Management are confident that this will significantly reduce the number of errors in the draft accounts presented for audit and reduce the number of audit queries as a result.

Audit and Standards Committee

- 2.5 The sharing of key tasks and documentation of the processes involved will provide additional resilience to the organisation in terms of business continuity and avoids excess reliance on a single individual, as well as potentially identifying areas for future automation and streamlining to improve efficiency.

Timetable

- 2.6 A detailed closedown timetable for NECA has been prepared and key dates and dependencies discussed and agreed with officers from Mazars, Nexus and NTCA. A high-level summary is attached at Appendix 1.
- 2.7 Dates for communications with members of this committee are included in the summary timetable at Appendix 1. The main communications will be as follows:
- 14 April 2020 – report on Accounting Policies and Closedown Update to NECA Audit and Standards Committee;
 - 29 May 2020 – link to the published Draft NECA Statement of Accounts and Narrative Report will be circulated to all Audit and Standards Committee members;
 - June 2020 – a special meeting of the Audit and Standards Committee will be held to review the Draft NECA Statement of Accounts and Narrative report in detail; and
 - July 2020 – the final audited accounts and report of the external auditor will be presented to the Audit and Standards Committee – with a focus on any changes to the draft accounts that had been considered at the meeting in June;
- 2.8 Should any key deadlines be missed which threaten the overall timetable, this will be escalated to the NECA Chief Finance Officer in the first instance who will determine what level of communication with the Audit and Standards Committee would be appropriate to keep members fully informed of any issues.
- 2.9 The timetable, particularly in relation to the audit of the accounts, remains extremely challenging. The time available for the audit of the accounts is two months less than in 2017, before the new faster close deadlines came into effect, and this has proved difficult for a number of local authorities and their

Audit and Standards Committee

external auditors, as demonstrated by the Public Sector Audit Appointments report that over 40% of audit opinions on the 2018/19 statements of accounts were not available by the target date of 31 July 2019, an increase from 13% in relation to the 2017/18 accounts. NECA was not one of those authorities.

Audit Planning

- 2.10 As set out in the separate report of the External Auditor on this agenda, initial meetings have already been held. Systems walkthroughs have been scheduled for January 2020, with further audit planning work to take place in January and February. This will include early sampling and testing of transactions to the end of December 2019, to reduce pressure on the main audit visit. The outcome of this planning work will be presented to the Audit and Standards Committee as part of Mazars' Audit Strategy Memorandum report in April 2020.
- 2.11 Mazars have also rearranged their resources to ensure that the same Senior Manager, Jim Dafter, will lead the audits of NECA, NTCA, Nexus and North East Metro Operations Limited (NEMOL). This will assist with scheduling and co-ordination of the various audits.

Information Sharing

- 2.12 In order to assist with the completion of the audit, the Chief Finance Officers of NECA, NTCA, Nexus and NEMOL have agreed that information and findings relating to the audits of the respective organisations may be shared between them in order to assist with the completion of audits for each authority and remove potential duplication of effort in, for example, preparation of reports to committees.

3. Reasons for the Proposals

- 3.1 The Terms of Reference for the Audit and Standards Committee includes that it will receive follow-up reports on the progress made in implementing agreed internal and external audit recommendations, and it will monitor management action in response to any issues raised in relation to the accounts by external audit. External audit highlighted that capacity to respond to audit queries and level of quality assurance was an issue in the 2018/19 audit and this report sets out how NECA has and will address this in advance of the 2019/20 closedown.

4. Alternative Options Available

- 4.1 The report is presented for information.

Audit and Standards Committee

5. Next Steps and Timetable for Implementation

- 5.1 The high-level timetable for the closure of accounts 2019/20 is attached at Appendix 1. A further progress update will be presented to the Committee along with the updated accounting policies to be used in the preparation of the statement of accounts will be presented to the Committee at the next meeting in April 2020.

6. Potential Impact on Objectives

- 6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

- 7.1 There are no financial or other resource implications arising from this report which is for information. Costs relating to the closure of the 2019/20 accounts, including additional resources appointed, are included within the NECA budget for the year.

8. Legal Implications

- 8.1 There are no legal implications arising from this report. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

9. Key Risks

- 9.1 There are no risk management implications arising from this report.

10. Equality and Diversity

- 10.1 There are no equality and diversity implications arising from this report.

11. Crime and Disorder

- 11.1 There are no crime and disorder implications arising from this report.

12. Consultation/Engagement

- 12.1 Initial discussions and consultation on the proposed timetable have taken place with key stakeholders in the closedown process including officers from Nexus, North of Tyne Combined Authority and Mazars.

Audit and Standards Committee

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – High Level Closedown Timetable

15. Background Papers

15.1 None

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager,
eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign off

- 17.1
- Head of Paid Service: ✓
 - Monitoring Officer: ✓
 - Chief Finance Officer: ✓

NECA Closedown 2019-20 - Summary Timetable (key dates only)

Appendix 1

Task Description	Responsible Officer	Deadline (Date)	Notes
JANUARY			
Audit visits – planning	Jim Dafter/Holly Madin	w/c 6 January	
Audit visits – systems testing and IT controls	Jim Dafter/Holly Madin	w/c 27 January	
FEBRUARY / MARCH			
Audit visits – early testing	Jim Dafter/Holly Madin	27/02/2020-02/03/2020; 27/03/2020-02/04/2020	
APRIL			
Reports to Democratic Services for Audit & Standards Committee April meeting	Eleanor Goodman	03/04/2020	
Audit & Standards Committee – report on Accounting Policies and closedown update	Eleanor Goodman	14/04/2020	
MAY			
NECA single entity statements first draft complete	Eleanor Goodman/Patsy O'Reagan	08/05/2020	
NECA single entity notes first draft complete	Eleanor Goodman/Patsy O'Reagan	08/05/2020	
Provide draft JTC single entity info to NTCA	Eleanor Goodman/Patsy O'Reagan	11/05/2020	
Nexus to provide draft Nexus Group accounts to NECA	John Fenwick	12/05/2020	
QA/Review NECA single entity accounts	Eleanor Goodman/Patsy O'Reagan	15/05/2020	
NECA Group statements first draft complete	Eleanor Goodman/Patsy O'Reagan	15/05/2020	
NECA Group notes first draft complete	Eleanor Goodman/Patsy O'Reagan	19/05/2020	
Nexus AGS approved by those charged with governance	John Fenwick	19/05/2020	
Public inspection period commences	Michael Hunt	19/05/2020	
Provide draft JTC group info to NTCA	Eleanor Goodman/Patsy O'Reagan	20/05/2020	
NECA Narrative Report first draft complete	Eleanor Goodman/Patsy O'Reagan	22/05/2020	
QA/Review NECA Group accounts	Eleanor Goodman/Patsy O'Reagan	22/05/2020	
First meeting with CFO/Dep CFO to review draft NECA Statement of Accounts and Narrative Report	Eleanor Goodman/Paul Darby/John Hewitt	22/05/2020	to be scheduled - PD/JH
Audit of Nexus Group accounts commences	Mazars/Nexus	26/05/2020	
Review/amend/finalise draft accounts and Narrative Report	Eleanor Goodman/Patsy O'Reagan	28/05/2020	
CFO to sign off draft NECA Statement of Accounts	John Hewitt/Paul Darby	29/05/2020	to be scheduled - JH
Draft NECA Statement of Accounts and Narrative Report to be published on NECA website	Eleanor Goodman	29/05/2020	
Link to published Draft NECA Statement of Accounts and Narrative Report to be circulated to NECA Audit & Standards Committee members	Eleanor Goodman	29/05/2020	
Provide draft NECA Statement of Accounts and all WPs to Mazars	Eleanor Goodman	29/05/2020	
JUNE			
Public inspection period commences	For info	01/06/2020	

Task Description	Responsible Officer	Deadline (Date)	Notes
NECA Main audit visit	Jim Dafter	Jun/Jul 2020	Specific dates to be agreed with Mazars
Reports to Democratic Services for Audit & Standards Committee special meeting – Draft Accounts	Eleanor Goodman	tbc June 2020	Date tbc
Audit and Standards Committee - special meeting to consider draft Accounts	John Hewitt/Paul Darby to present	tbc June 2020	Date tbc - post 10 June
Whole of Government Accounts cycle 1 return	Eleanor Goodman/Patsy O'Reagan	30/06/2020	Date tbc by HMT - indicative based on last year
Major work on Nexus Group audit completed *	Mazars/Nexus	30/06/2020	
Public inspection period ends	Michael Hunt	30/06/2020	
JULY			
Approval of Nexus Group Accounts by those charged with governance*	John Fenwick	07/07/2020	
Public inspection period ends	For info	10/07/2020	
Audited Nexus Group accounts to be provided to NECA *	Helen Giloney	10/07/2020	
Major work on NECA audit completed	Jim Dafter	17/07/2020	
Provide audited JTC single entity info to NTCA	Eleanor Goodman/Patsy O'Reagan	17/07/2020	
Provide audited JTC Group info to NTCA	Eleanor Goodman/Patsy O'Reagan	17/07/2020	
Reports to Democratic Services for NECA Audit & Standards Committee	Eleanor Goodman/Patsy O'Reagan	20/07/2020	Date tbc
Reports to Democratic Services for NECA Leadership Board	Eleanor Goodman/Patsy O'Reagan	22/07/2020	Date tbc
NECA Audit & Standards Committee meeting to consider final accounts and auditors report	John Hewitt/Paul Darby to present	28/07/2020	Date tbc
NECA Leadership Board meeting to approve final accounts and auditors report	John Hewitt/Paul Darby to present	30/07/2020	Date tbc
CFO to sign off final NECA Statement of Accounts	John Hewitt/Paul Darby	30/07/2020	to be scheduled - JH
Final audited Statement of Accounts, Narrative Report and AGS published on NECA website	Eleanor Goodman	31/07/2020	
AUGUST			
Whole of Government Accounts cycle 2 return	Eleanor Goodman/Patsy O'Reagan	28/08/2020	Date tbc by HMT - indicative based on last year
SEPTEMBER			
Annual Audit letter reported to Audit & Standards Committee	Jim Dafter	15/09/2020	Date tbc

Key

	North East Combined Authority
	Mazars
	Nexus
	North of Tyne Combined Authority
	Committee Meetings and report deadlines

* The intention is that the Nexus audit will be substantially complete at this stage, although assurance concerning corporation tax and pensions is unlikely to be received until the end of July 2020.

Audit and Standards Committee

Date: 10 December 2019

Agenda Item 6

Subject: NECA Budget Proposals

Report of: Chief Finance Officer

Executive Summary

This report provides the Audit and Standards Committee with an update on the NECA Budget Proposals for 2020/21 and future years as part of the budget consultation process.

A report on the draft 2020/21 Budget was presented to the Leadership Board on 5 November and reports on the 2020/21 Budget and Transport Levies were presented to the Joint Transport Committee (JTC) on 23 October and 19 November. These reports are attached to this report as appendices for consideration and comment.

The views of the Audit and Standards Committee will be considered in the development of the final budget report and reported to the NECA Leadership Board and the JTC when they set the budgets and Transport Levies for 2020/21 at meetings in January and February 2020.

Recommendations

The Audit and Standards Committee is recommended to receive the report for information and provide comment for consideration as part of the consultation process.

Audit and Standards Committee

1. Background Information

- 1.1 The purpose of this report is to seek the views of the Audit and Standards Committee on proposals for the 2020/21 NECA budget, as part of its consultation process. The summary report on the draft budget presented to the Leadership Board on 5 November, covering all aspects of the NECA budget, and the reports on the draft Budget and Transport Levies presented to the JTC on 23 October and 19 November are attached as appendices.

2 Proposals

- 2.1 The budget proposals for 2020/21 as they currently stand for both Transport and non-Transport activities are set out in the reports attached as appendices.
- 2.2 Key proposals (set out in detail in Appendix 1) presented to the NECA Leadership Board on 5 November include:
- a) The current £250,000 contribution towards the North East Local Enterprise Partnership (North East LEP), funded by an equal contribution of £35,714.29 from the seven councils in the North East LEP area, which is required to match fund government grant, is proposed to be continued in 2020/21;
 - b) The contribution to the Invest North East England (INEE) team of £20,000 per local authority is proposed to be continued subject to discussion with constituent councils and the North East LEP;
 - c) The contribution from the NECA constituent authorities to NECA corporate costs of £22.857 per council is continued in 2020/21;
 - d) The £70,000 contribution towards the costs of the JTC Accountable Body role is continued in 2020/21 through an equal contribution of £10,000 from the seven local authority members of the JTC; and
 - e) The £70,000 contribution towards the costs of the North East LEP Accountable Body role be continued in 2020/21 through an equal contribution of £10,000 from the seven local authorities in the North East LEP area.
- 2.3 Key proposals (set out in detail in Appendices 2-4) presented to the Joint Transport Committee on 23 October and 19 November include:
- a) That the draft proposed budget and levy for Durham County Council (DCC) is £15.466m (subject to further ongoing work by DCC);

Audit and Standards Committee

- b) That the draft proposed budget and levy for Northumberland County Council (NCC) is £6.224m (subject to further ongoing work by NCC);
- c) That the options presented in respect of the Tyne and Wear levy be considered and feedback be provided on the preferred option for further consultation; and
- d) That the Tyne Tunnels tolls are proposed to be increased for Class 3 vehicles (HGVs) by £0.10p to keep pace with the inflation and the increase in the shadow toll payable to the concessionaire TT2 Ltd., in line with the concession contract and the agreed approach to the funding of the Tyne Tunnels (Note: the decision to increase the Tyne Tunnels tolls will be taken by the Tyne and Wear Sub Committee in January 2020).

3. Reasons for the Proposals

- 3.1 As part of the process for setting its budget, NECA must ensure appropriate and effective consultation takes place with all Members and other stakeholders on the content of the Budget. This includes consultation with the Audit and Standards Committee and this report provides an opportunity for such consultation to take place.

4. Alternative Options Available

- 4.1 The report is presented for information.

5. Next Steps and Timetable for Implementation

- 5.1 Comments made as part of the consultation process will be considered in the development of the final, detailed budget proposals for 2020/21 which will be presented to the JTC and the NECA Leadership Board for approval in January and February 2020.

6. Potential Impact on Objectives

- 6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

- 7.1 The financial and other resource implications are set out in detail in the individual reports contained as appendices.

Audit and Standards Committee

8. Legal Implications

8.1 There are no legal implications arising from this report.

9. Key Risks

9.1 There are no risk management implications arising from this report.

10. Equality and Diversity

10.1 There are no equality and diversity implications arising from this report.

11. Crime and Disorder

11.1 There are no crime and disorder implications arising from this report.

12. Consultation/Engagement

12.1 The budget is subject to a period of consultation which includes this committee as well as other committees of NECA and the JTC, officer groups and the North East England Chamber of Commerce.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report which is for information.

14. Appendices

14.1 Appendix 1: NECA Leadership Board 5 November 2019 – Draft Budget Proposals and Timetable

Appendix 2: JTC 23 October 2019 – Budget Proposals 2020/21

Appendix 3: JTC 23 October 2019 – Nexus Budget Strategy – Medium Term Financial Planning 2020/21

Appendix 4: JTC 19 November 2019 – Budget Proposals

15. Background Papers

15.1 None

16. Contact Officers

Audit and Standards Committee

16.1 Eleanor Goodman, NECA Finance Manager,
eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign off

- 17.1
- Head of Paid Service: ✓
 - Monitoring Officer: ✓
 - Chief Finance Officer: ✓

Leadership Board

Appendix 1

Date: 5 November 2019
Subject: Draft Budget Proposals and Timetable
Report of: Chief Finance Officer

Executive Summary

The purpose of the report is to consider initial budget proposals and three-year forecasts in relation to NECA budgets, and to consider and agree the consultation requirements and timetable for the budget proposals.

NECA is currently the accountable body for the North East Local Enterprise Partnership (North East LEP) and this report therefore includes proposals for the budget for the North East LEP and for providing corporate support as its accountable body. When this role is transferred to the North of Tyne Combined Authority (NTCA), any contributions agreed for 2020/21 and future years will be payable to NTCA.

A summary of the estimated outturn position for the 2019/20 Corporate Budget including Accountable Body responsibility for the North East Joint Transport Committee (JTC) and the Accountable Body responsibility for the North East LEP is set out in section 1 of the report. This shows that expenditure will be approximately £4,000 below the funding available at the year end.

The level of the remaining NECA Corporate Reserve at 31 March 2020 is estimated at £345,000 prior to the refund of a share of the reserves to the NTCA authorities, the level of which is subject to further discussion with local authorities. Details will be included in a report to the next meeting.

The report sets out that the current level of contributions to the North East LEP and Invest North East England teams are £35,714.29 and £20,000 for each of the seven local authorities respectively. The proposed budgets for 2020/21 are set out on the basis contributions continue at these levels.

A high-level budget of £106,233 for NECA Corporate costs and £86,530 for JTC Accountable Body costs is proposed for 2020/21. After estimated investment income, the level of contributions from constituent authorities is proposed to be maintained at the same level as the current year which results in a net balanced budget position. This budget primarily covers employee and Service Level Agreement (SLA) charges and regular costs such as independent members' allowances, telecoms charges and meeting expenses. The budget will need to be

kept under review for any new areas of work that are identified over and above the budget that is agreed.

Recommendations

The Leadership Board is recommended to:

- i. Receive this report for consideration and comment;
- ii. Note the Budget position for 2019/20 set out in section 1.3;
- iii. Note the Budget Setting timetable set out in section 1.1 and Appendix 1;
- iv. Agree the following proposals that are set out for the basis of consultation on the NECA 2020/21 Revenue Budget:
 - a. The current £250,000 contribution towards the North East Local Enterprise Partnership (North East LEP), funded by an equal contribution of £35,714.29 from the seven councils in the North East LEP area, which is required to match fund government grant, is continued in 2020/21;
 - b. The contribution to the Invest North East England (INEE) team of £20,000 per local authority is continued subject to discussion with constituent councils and the North East LEP. The current council contributions of £140,000, an equal contribution of £20,000 from the seven councils in the North East LEP area, is proposed to be continued in 2020/21;
 - c. The contribution from the NECA constituent authorities to NECA corporate costs of £22,857 per council is continued in 2020/21;
 - d. The £70,000 contribution towards the costs of the Joint Transport Committee Accountable Body role is continued in 2020/21 through an equal contribution of £10,000 from the seven local authority members of the North East Joint Transport Committee; and
 - e. The £70,000 contribution towards the costs of the North East LEP Accountable Body role be continued in 2020/21, through an equal contribution of £10,000 from the seven local authorities in the North East LEP area.

1. Background Information

Revised Budget Process and Timetable

- 1.1 Following discussions at the last Leadership Board meeting, the budget timetable has been updated and separate timetables developed for agreement of budgets relating to the NECA Leadership Board, the Joint Transport Committee (JTC) and the North East Local Enterprise Partnership (LEP).
- 1.2 The detailed timetables for the agreement of NECA, JTC and North East LEP budgets are set out in Appendix 1.
- 1.3 The initial budget proposals and timetable for 2020/21 have been discussed with the seven local authorities will be subject to consultation with the NECA Overview and Scrutiny Committee, NECA Audit and Standards Committee and relevant officer groups including Finance Directors and Chief Executives. Where meetings are already scheduled this is set out in the timetable including meetings relating to both combined authorities. This will continue to be kept under review.

Update on 2019/20 Budget and Forecast Outturn

- 1.3 The report to the Leadership Board on 4 February 2019 set a net NECA Corporate budget for 2019/20 of £161,428. This provides NECA corporate capacity and to fulfil the JTC accountable body role, with a further £70,000 provided for the North East LEP accountable body role.
- 1.4 The table below presents a summary of expenditure to date and forecast outturn against the 2019/20 NECA corporate budget including costs associated with the roles of Accountable Body for the JTC, Accountable Body for the North East LEP and costs of SLAs which are charged to other Transport and LEP budgets. Further information about the various budget heads is provided in the sections below.

Table 1: NECA Corporate Budget Forecast outturn 2019/20

1.5

	NECA Corporate £	JTC Accountable Body £	North East LEP Accountable Body £	Total £
Expenditure				
Employees	19,759	19,759	21,588	61,106
Service Level Agreements	50,025	85,225	61,000	196,250
External Support	8,203	2,625	31,484	42,313
Independent Members Allowances	7,000	0	0	7,000
Supplies and Services	15,128	72	1,152	16,352
Other Grant Funded Activity	363,637	0	0	363,637
Total Expenditure	463,752	107,681	115,224	686,657
Income				
NECA Corporate Contributions	(91,428)	0	0	(91,428)
JTC Accountable Body Contributions	0	(70,000)	0	(70,000)
LEP Accountable Body Contributions	0	0	(70,000)	(70,000)
Government Grants	(363,637)	0	0	(363,637)
Interest Income	(10,000)	(39,515)	(46,054)	(95,569)
Total Income	(465,065)	(109,515)	(116,054)	(690,634)
In-year surplus to reserves	(1,313)	(1,834)	(830)	(3,977)

1.6 **Employees**

NECA has a small number of employees including the Managing Director, Transport North East, the Policy and Scrutiny Officer, Strategy and Democratic Services Assistant and the newly created Tyne Tunnels Contract Manager post. A proportion of the costs of these employees are charged against the NECA corporate budget, JTC Accountable Body budget and LEP Accountable Body budgets and against JTC and LEP operational budgets as appropriate. All other employees on the NECA payroll are employed on behalf of the North East LEP and the Invest North East England team and their costs charged to those budgets.

Service Level Agreements

- 1.7 Service Level Agreements are in the process of being standardised. There are no changes proposed to the charges assumed in the budget for 2019/20 and 2020/21 at this stage however SLA's will need to be reviewed to reflect any new commitments that are identified. A review will be undertaken during 2020 to inform the budget setting process for 2021/22.

External Support

- 1.8 The services of the former Interim Chief Finance Officer to NECA have been retained during 2019/20, primarily to support the North East LEP and to support the closedown of the 2018/19 accounts. The Chief Finance Officer SLA with Durham County Council has funded this support.

Members Allowances

- 1.9 Allowances are paid to independent Chairs and Vice Chairs appointed to committees of NECA and the JTC This includes the Chair and Vice-Chair of the NECA and JTC Overview and Scrutiny committees, the Chair and Vice-Chair of the NECA Audit and Standards committee and the Chair and Vice-Chair of the JTC Audit committee, as well as an allowance paid to the Independent Person under the Standards Regime. Costs associated with the JTC committees are funded from the Transport levies, and NECA committees are funded from the NECA corporate budget.

Supplies and Services

- 1.10 NECA incurs a small level of cost in relation to meeting room hire, telecoms and banking charges.

- 1.11 Professional fees costs are charged to this budget including a proportion of the external audit fee from Mazars and other professional fees for work around the closure of accounts including Aon Hewitt (Pensions) and Arlingclose (Financial Instruments).
- 1.12 Costs which were not included in the original budget for 2019/20 which have been incurred for in year include expenditure on the NECA website (approximately £4,000) and initial support to develop a pipeline of priority projects (approximately £3,700).

Other Grant-Funded Activity

- 1.13 At the end of the 2018/19 financial year, NECA received £90,909 from the Ministry of Housing, Communities and Local Government (MHCLG) to support veterans who are, or who are at risk of becoming, homeless and sleeping rough. In April 2019 the Leadership Board agreed a proposal to allocate the grant to the four NECA councils on a population basis and set out the proposed use of the funding by each authority. Payments have been made to the NECA councils to deliver the agreed interventions, and staff from Durham County Council are co-ordinating ongoing returns and reporting to MHCLG on behalf of NECA.
- 1.14 As reported to the Leadership Board in July, NECA received £181,818 from MHCLG to help 'support its preparations for Brexit'. A further £90,909 grant has now been received, giving a total of £272,727. Updates on this funding will be provided to future Leadership Board meetings.

Local Authority Contributions

- 1.15 As noted in the report to the NECA Leadership Board on 23 July 2019, contributions from the four NECA constituent authorities total £22,857 per local authority to fund the NECA corporate budget. In addition, all seven local authorities in the Joint Transport Committee area contribute £10,000 to meet the costs of the JTC Accountable Body role, £10,000 to meet the costs of the North East LEP Accountable Body role, £35,714 per local authority paid to the North East LEP for the contribution to its core budget required to match fund government grant and £20,000 to support the work of the Invest North East England team.

It was noted that from the date that the Accountable Body role for the North East LEP transfers to the North of Tyne Combined Authority (NTCA) these contributions will be paid to NTCA.

Interest Receipts

- 1.16 NECA receives investment income on funds it holds on behalf of the North East LEP and the JTC which are allocated to different areas of activity with a proportion retained to help fund the corporate costs of NECA. The total included in the NECA corporate budget including the JTC accountable body role and the North East LEP accountable body role was £45,000 for 2019/20. The estimated level of income which will be apportioned to these budgets is £96,000 in total which is in excess of the original budget.

NECA Corporate Reserve

- 1.17 The NECA corporate reserve was created in 2014 on the establishment of the Combined Authority by equal shares contributions of £50,000 per constituent authority. This reserve has fluctuated over the years to cover corporate costs and agreed areas of expenditure. It was reported in the NECA budget report for 2019/20 that the costs of devolution would be met by the North of Tyne authorities (under the Deed of Co-operation dated 4 July 2018) and these would be met by way of a deduction from their share of the NECA Corporate Reserve which was to be reimbursed following the completion of the 2018/19 closedown and audit.

In addition, costs have been incurred by NECA since 31 March 2019 which relate to the closedown of the 2018/19 accounts. As set out to the NECA Leadership Board in November 2018, would these costs will be funded by all seven local authorities as they relate to the financial year during in they were constituent authorities of NECA.

Details of these costs are being finalised and will be discussed in more detail with local authorities and reported for agreement at a future meeting.

- 1.18 As part of setting the budget for 2020/21, the Chief Finance Officer will consider the level of the reserve and whether this is appropriate to manage financial risks associated with the NECA budget, noting that separate reserves are held on behalf of the Joint Transport Committee and the North East LEP relating to these areas of the budget.

2. 2020/21 and Future Years

North East LEP Capacity

- 2.1 When the Accountable Body for the North East LEP transfers to the North of Tyne Combined Authority (NTCA), any contributions agreed will be payable to NTCA.

- 2.2 The North East LEP core team is part funded from a Government contribution of £500,000 which is required to be matched by £250,000 local authority contributions. Part of the North East LEP costs of managing the Local Growth Fund (LGF) programme are funded by a top slice from the LGF grant for this purpose, with other activities being funded by additional external grants.
- 2.3 The North East LEP budget for 2020/21 – 2022/23 is being prepared to take into account the latest estimates of this and other external grant funding which supports North East LEP activity, which is not likely to be confirmed until nearer the end of the financial year. Appendix 2 sets out the summary of the 2019/20 and future years LEP budgets as agreed by the LEP Board in May 2019.
- 2.4 It is proposed that the initial budget is based on the current match funding contribution of £250,000 being continued in 2020/21 by the seven North East local authorities each contributing £35,714.29.

Invest North East England

- 2.5 The Invest North East England (INEE) team works on behalf of the seven local authorities in the North East LEP area to coordinate inward investment activity. The team has a gross budget in 2019/20 of £460,000, funded in part from a contribution of £20,000 from each local authority in the North East LEP area. It is proposed that at this stage the initial budget is based on this contribution being maintained at the same level for 2020/21 to enable the budget for 2020/21 whilst further discussions take place with individual local authorities.
- 2.6 It is anticipated that when the INEE team transfers to the NTCA any contributions agreed will be payable to NTCA.

NECA Corporate Costs

- 2.7 The NECA budget for Corporate costs is required to support corporate operational costs for employees, SLAs and Supplies and Services - including those relating to the Head of Paid Service, Monitoring Officer and legal costs, Chief Finance Officer and finance and accounting costs, support for the Scrutiny and Policy functions of NECA and administration and co-ordination.
- 2.8 The budget for 2020/21 has been prepared based on known employee and SLA charges. Any additional work or projects that are considered in addition to the budget will need to be considered in terms of the resources that are available.
- 2.9 The table below summarises the proposed budget and funding for 2020/21.

	NECA	JTC	Total
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	Corporate	Accountable Body	
Expenditure			
Employees	47,898	11,095	58,994
Service Level Agreements	45,435	75,435	120,870
Independent Members Allowances	7,000	0	7,000
Supplies and Services	5,900	0	5,900
Total Expenditure	106,233	86,530	192,764
Income			
NECA Corporate Contributions	(91,428)	0	(91,428)
JTC Accountable Body Contributions	0	(70,000)	(70,000)
Interest Income	(15,000)	(15,000)	(30,000)
Total Income	(106,428)	(85,000)	(191,428)
Net (to)/from Corporate Reserve	(195)	1,530	1,336

- 2.10 These budgets mainly relate to staffing costs and Service Level Agreements (the costs of which are largely driven by employee costs) and there is an assumed uplift of 2.5% included for 2021/22 and 2022/23, with a corresponding increase in the contributions required from constituent authorities in 2021/22 and 2022/23. Any proposals for these financial years will be subject to more detailed consultation as part of the budget setting process in future years. A summary of the high-level budget for the period 2020/21-2022/23 is set out in Appendix 4.

Transport Budgets

- 2.11 Draft high-level proposals for the Transport budget were presented to the Joint Transport Committee on 23 October. This includes the Tyne and Wear Levy and revenue grant to Nexus, the Transport Strategy Unit and the Tyne Tunnels.
- 2.12 A copy of the report to the JTC meeting on 23 October 2019 setting out draft proposals is attached as Appendix 3. The JTC agreed that further options should be modelled in relation to the Tyne and Wear transport levy and considered as part of the budget consultation over the coming months.

Reserves and Contingencies

- 2.13 The Corporate reserve of NECA was originally set at £350,000 which was created by a contribution of £50,000 from each local authority on the

establishment of NECA in 2014. This is forecast to be approximately £345,000 at 31 March 2020, prior to the redistribution of the Corporate reserve back to NTCA authorities as set out in section 1.17. Based on current plans of activity this is considered a prudent level of reserves to hold to mitigate against unforeseen financial risks which may arise specifically in relation to this area of the budget. This will be kept under review and a firm recommendation included in the final budget report to the NECA Leadership Board in February 2020.

- 2.14 It should be noted that separate reserves are held for Transport activity (including Nexus and the Tyne Tunnels) and North East LEP activity, and decisions on these reserves will be taken by the Joint Transport Committee and the North East LEP Board respectively.

3. Reasons for the Proposals

- 3.1 NECA is required to consult on its budget proposals two months before it sets the budget in February 2020.

4. Alternative Options Available

- 4.1 Option 1: agree the proposals as set out in the report.
Option 2: suggest amendments or alternative proposals to be considered as part of the budget consultation process.
Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

- 5.1 The budget timetable is set out in Appendix 1.

6. Potential Impact on Objectives

- 6.1 The budget and medium-term financial strategy will be prepared to reflect the objectives of the Authority. Future reports will set out the revenue and capital budget proposals in detail that will help deliver the objectives of the Authority.

7. Financial and Other Resources Implications

- 7.1 Financial and other resource implications are summarised in this report where they are known. Further details which are developed as part of the budget development and consultation process will be identified in the budget report to the next Leadership Board.

8. Legal Implications

- 8.1 The budget must be approved unanimously in accordance with the requirements of the NECA Order and the NECA Constitution.

9. Key Risks

- 9.1 The budget timetable has been developed to manage the risk that the budget is not agreed unanimously by the requisite deadline through early discussion with all constituent authorities. The budget proposals will include an assessment of the risk facing the NECA budget, which will be used to inform the level of reserves which is determined to be prudent.

10. Equality and Diversity

- 10.1 There are no equality and diversity implications arising from this report.

11. Crime and Disorder

- 11.1 There are no crime and disorder implications arising from this report.

12. Consultation/Engagement

- 12.1 The report sets out consultation and engagement which will take place as part of the budget-setting process.

13. Other Impact of the Proposals

- 13.1 There are no other impacts arising from these proposals.

14. Appendices

- 14.1 Appendix 1 – Budget Timetable
Appendix 2 – North East LEP budgets 2019/20 – 2021/22
Appendix 3 – Report to North East Joint Transport Committee 23 October 2019 – Budget Proposals
Appendix 4 – NECA Corporate and JTC Accountable Body Budget Proposals 2020/21-2022/23

15. Background Papers

- 15.1 Report to Leadership Board 5 February 2019 – Budget 2019/20
<https://northeastca.gov.uk/wp-content/uploads/2019/01/Leadership-Board-5->

[February-2019-Agenda-Pack.pdf](#)

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager,
Eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign Off

- 17.1
- Head of Paid Service: ✓
 - Monitoring Officer: ✓
 - Chief Finance Officer: ✓

Appendix 1 – Budget Timetable 2020/21

BUDGET TIMETABLE 2020/21 – NECA

Date	Meeting/Event	Action
5 November 2019	NECA Leadership Board	Initial budget proposals and 3 year forecasts in relation to NECA budgets. Consultation requirements to be considered / agreed
TBC – Meeting to be arranged w/c 9 December 2019	NECA Leadership Board	Consider the decisions and any recommendations made by the JTC and JTC Overview and Scrutiny Committee
10 December 2019	NECA Audit & Standards Committee	Consider NECA budget proposals as part of consultation process
19 December 2019	NECA Overview and Scrutiny Committee	Consider NECA budget proposals as part of consultation process
4 February 2020	NECA Leadership Board	Leadership Board consider outcome of consultation on NECA budget proposals Leadership Board formally issue levy agreed by Joint Transport Committee in January. Formal agreement of non-Transport budgets and contributions.
15 February 2020	Levy letters issued to constituent authorities	Date by which Transport levies must be issued in line with Transport Levying Bodies Regulations

BUDGET TIMETABLE 2020/21 – Joint Transport Committee

Date	Meeting/Event	Action
14 August 2019	Tyne and Wear Sub-Committee (Briefing)	Consider 3 year forward forecasts of budget pressures and issues in relation to Nexus
17 September 2019	North East Joint Transport Committee (Briefing)	Consider 3 year forward forecasts of budget pressures and issues in relation to Nexus
23 October 2019	North East Joint Transport Committee	Initial budget proposals and 3 year forecasts in relation to JTC/Transport budgets. Consultation requirements to be considered / agreed
7 November 2019	Joint Transport Committee Overview and Scrutiny Committee	Examine initial budget and consultation proposals and make any recommendations to the JTC
19 November 2019	North East Joint Transport Committee	Consider updated draft Transport budget proposals and any feedback from JTC Overview & Scrutiny Committee
21 November 2019	Tyne and Wear Sub-Committee	Consider report on the draft budget proposals with specific reference to Tyne and Wear Transport activity
26 November 2019	NTCA Cabinet Meeting	Consider draft Transport budget proposals developed by JTC and implications regarding Transport Levy for constituent authorities as part of the budget consultation process
TBC – Meeting to be arranged w/c 9 December 2019	NECA Leadership Board	Consider the decisions and any recommendations made by the JTC and JTC Overview and Scrutiny Committee
12 December 2019	Joint Transport Committee Audit Committee	Consider budget proposals as part of consultation process
19 December	JTC Overview and	Consider (updated) budget proposals as part

Date	Meeting/Event	Action
2019	Scrutiny Committee	of consultation process (if necessary)
21 January 2020	North East Joint Transport Committee	Approve Transport Revenue Budget and Transport Levies
28 January 2020	NTCA Cabinet Meeting	Formally agree to issue the Transport Levy to constituent NTCA authorities
4 February 2020	NECA Leadership Board	Leadership Board formally issue levy agreed by Joint Transport Committee in January. Formal agreement of non-Transport budgets and contributions.
15 February 2020	Levy letters issued to constituent authorities	Date by which Transport levies must be issued in line with Transport Levying Bodies Regulations

BUDGET TIMETABLE 2020/21 – LEP

Date	Meeting/Event	Action
5 November 2019	NECA Leadership Board	Initial budget proposals and 3 year forecasts in relation to LEP budgets (Update of 3 year position as agreed by LEP Board May 2019). Including proposed Local Authority Contributions to LEP Core Team (£250k) and Invest North East England Team (£140k)
10 December 2019	NECA Audit & Standards Committee	Consider LEP budget proposals as part of consultation process
19 December 2019	NECA Overview and Scrutiny Committee	Consider LEP budget proposals as part of consultation process
30 January 2020	LEP Board	Agree 2020/21 LEP Budget
4 February 2020	NECA Leadership Board	Include 2020/21 LEP Budget as agreed by LEP Board in NECA report in role as Accountable Body to 31 March 2020. Agree Local Authority contributions to LEP Budget and Invest North East England Budget.
March/May 2020	LEP Board	3 year Budget including confirmation of external government funding sources

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Appendix 2 – North East Local Enterprise Partnership (LEP) Revenue Budget 2019/20 to 2021/22 – extract from report to North East LEP Board 23 May 2019

- 1.1 The budget position for 2019/20 was reported to the North East Combined Authority as the accountable body for the North East LEP on 5th February 2019, and the North East LEP Board on 31st January, 2019.
- The proposed budget was approved by both Boards with no issues identified. This report includes latest information about the 2019/20 budget including the impact of the outturn for 2018/19.
- 1.2 Table 1 provides a summary of the three-year revenue budget for the North East LEP showing financial years 2019/20, 2020/21 and 2021/22. The explanatory notes from sections 7 to 8 provide further information.
- 1.3 Over the three years, if no additional income is identified the costs are estimated to exceed the available grant and core contributions income by up to £36k in 2019/20; £400k in 2020/21 and £552k in 2021/22. This deficit is funded from the LEP reserve in 2019/20 and supplemented from the assumed surplus on the Enterprise Zone account in 2020/21 (contribution of £400k) and 2021/22 (contribution of £500k) as previously agreed by the Board. This enables the potential risk of not securing additional income to be managed.
- 1.4 In November 2014, the Board agreed that Enterprise Zone Business Rates Growth Income surplus of up to £500k per annum could be utilised to support the revenue budget if required. To date there has not been a requirement to use this facility and therefore in effect saving £2m of potential spend from the EZ account. It is anticipated that £400k will be required in 2020/21 and a further £500k in 2021/22 to achieve a LEP Reserve balance of £497k at 31st March 2022.
- 1.5 There are active funding bids which if successful will provide additional income and reduce the potential drawdown against the EZ account in both years. Furthermore, an announcement is expected shortly in respect of the UK Shared Prosperity Fund and there is the potential to secure continuation of funding for skills and other operational activity from 2021/22 onwards. Until this funding is confirmed, only a core budget is illustrated for 2021/22.
- 1.6 The LEP manages the uncertainty of funding by using fixed term staffing contracts and by being able to reduce other operating costs to reflect the available funding streams; and by the availability of reserves and other funds which it can draw on to support activity, such as the use of the agreed

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Enterprise Zone contingency contribution.

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Table 1: Three Year North East LEP Budget 2019/20 – 2021/22

	2019/20 Budget (Jan 19)	2019/20 Budget (Adjusted May 2019)	2020/21 Base Budget	2021/22 Base Budget
	£000	£000	£000	£000
Employees	2,403	2,508	2,085	934
Premises	190	190	190	190
Communications	247	247	252	257
Transport LGF Monitoring	100	100	50	0
Growth Hub Operational Costs	138	117	297	294
Invite (Horizon 2020) Operational Costs	66	66	39	0
LIS (Local Industrial Strategy)	0	24	0	0
Other Operational Costs	614	614	614	614
North East Ambition Operational Costs	206	100	109	0
Inward Investment Contribution	140	140	140	50
Other LGF Costs – Legal Finance	50	50	50	0
GROSS EXPENDITURE	4,155	4,157	3,827	2,339
LEP Core & Strategy grant from DCLG	(500)	(500)	(500)	(500)
Local Authority Match Contributions	(250)	(250)	(250)	(250)
BEIS – LIS production and LEP review	0	(224)	0	0
CORE FUNDING	(750)	(974)	(750)	(750)
Local Growth Fund (programme mgmt. costs)	(1,100)	(950)	(850)	(518)
Interest Generated on Funds to fund INEE	(50)	(140)	(100)	(50)
Growth Hub	(410)	(410)	(410)	(410)
Enterprise Adviser grant – CEC	(173)	(190)	(71)	0
Energy Strategy BEIS TVCA	(57)	(79)	(15)	0
Invite (Horizon 20/20)	(102)	(102)	(54)	0
ERDF + Digital Catapult + AHSN	(63)	(103)	(60)	0
NEIF Contribution to cover activity costs	(66)	(66)	(58)	(59)
EZ Contribution to cover activity costs	(52)	(52)	(54)	0
NECOP	(106)	(136)	0	0
European Social Fund	(579)	(464)	(551)	0
LGF match North East Ambition ESF project	(280)	(314)	(419)	0
EY	0	(75)	0	0
DfE	0	(40)	(35)	0
LA Contributions re ESIF Co-ordinator	(20)	(20)	0	0
Other Income	(6)	(6)	0	0
EXTERNAL FUNDING	(3,063)	(3,147)	(2,677)	(1,037)
GROSS INCOME	(3,813)	(4,121)	(3,427)	(1,787)
NET BUDGET	342	36	400	552
BROUGHT FORWARD BALANCE	(574)	(585)	(549)	(549)
Use or (Contribution) LEP Reserves	342	36	400	552

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EZ Contribution	0	0	(400)	(500)
CARRY FORWARD BALANCE	(232)	(549)	(549)	(497)

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2 Adjustments to 2019/20 Original Budget

- 2.1 The overall budget for 2019/20 presented to the board indicated a £4.155m gross expenditure budget, funded by a range of Government grant income sources; a £250,000 core contribution from the seven local authorities; and interest on revenue balances.
- 2.2 The latest 2019/20 Budget position is showing £4.157m of gross expenditure which although broadly in line with the previous estimate contains some offsetting adjustments.
- 2.3 Employee costs have risen from £2.403m to £2.508m. £50k of the £105k increase is attributable to applying superannuation costs to any newly created roles where positions are filled from the 1st April 2019. Which is a prudent measure until confirmation is received that this is unnecessary. The remaining £55k can largely be attributed to re-phasing employee spend within the Skills team, which is funded by a range of grant schemes, including the European Social Fund (ESF), LGF North East Ambition match contribution and NECOP.
- 2.4 £176k expenditure was incurred in 2018/19 relating to the £200k BEIS funding outlined for activities in developing the Local Industrial Strategy (LIS) and implementing the LEP Review. £24k has been rolled forward to 2019/20 to fund activities that commenced but did not complete in 2018/19.
- 2.5 There has been a reduction in North East Ambition Operational costs from £206k to £100k, which is a decrease of £106k. This is largely a response to the delay in receiving official confirmation that the ESF funds are secured.
- 2.6 The balance of £21k, is associated with a reduction in Growth Hub operational costs.
- 2.7 Gross Income has increased to £4.121m from £3.813m. Additional funds have been secured from EY to provide a £75k contribution towards the skills team, and a further £40k from DfE towards analyst activity. AHSN have also agreed to fund the Life Sciences role at approximately £40k. Revised estimates for interest earnings indicate a £90k increase in earnings for 2019/20. Furthermore, although official confirmation is still awaited, it is the expectation that £200k of additional BEIS funding will be provided plus the £24k carry forward. There has been re-phasing of LGF funds in order to provide income in 2021/22 and this has resulted in a £150k reduction in 2019/20. The balance of £11k is a result of small net decreases across a range of grant funding sources available to the Skills team.

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- 2.8 While the latest Budget projection for 2019/20 shows a small use of reserves, the intention will be to manage costs and income to try to avoid using reserves at the year end.

3 Budget illustrations in Future Years

- 3.1 Indicative budget figures are also shown for 2020/21 and 2021/22. Inflation of 2% has been built into the estimate of employee costs and where appropriate other expenditure estimates.

3.2 Employees

The Employee expenditure budget shows a slight reduction in 2020/21 and a significant drop in 2021/22 due to the potential for a number of fixed term posts coming to an end in conjunction with the related income sources. If additional funding is secured, there is the potential for continued activity and higher employee costs are likely. However, until funding is confirmed only a core staffing budget is illustrated out of prudence.

A 2% annual national pay award assumption has been factored into the employee budget for all three financial years, and the national pay award will be implemented which it is agreed each year.

The NECA pension fund enables the 0% employer superannuation contribution rate to continue throughout this period. When compared to the previous superannuation contribution rate of 20.5%, this provides a significant budget saving of over £300k in 2019/20, over £200k for 2020/21 and over £100k is projected for 2021/22.

A staff turnover allowance of 3% has been factored into the employee budget for all three financial years, which is considered prudent given experience in recent years.

3.3 Premises

The LEP is negotiating a 5-year lease with a 3-year break clause to accommodate a larger office area within the building to support the team. Although the accommodation costs are fixed until the break in 2022 a provision to recover these costs is built into the funding that would be secured for additional activity of people using the accommodation space.

3.4 Communications

The proposed Communications budget for 2019/20 onwards represents a continuation of the budget agreed by the Board at its meeting in March 2017 adjusted for inflation. Key aspects of the budget include development of the

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communications activity related to delivering the SEP and the LIS, plus the continuation of essential PR & Media support

3.5 Transport LGF Monitoring and Evaluation

The reduced budget allocation of £100k in 2019/20 and £50k for 2020/21 reflects that the majority of the LGF transport schemes have progressed through appraisal.

3.6 Growth Hub Operational Costs

The continuation of £410k Growth Hub funding in 2020/21 and 2021/22 has been indicated by central government although official confirmation is awaited. The Growth Hub connectors which are funded through this source currently have Fixed Term Contracts which expire in March 2020. Once confirmation is received it is likely to result in extension of these contracts and this cost will result in a commensurate reduction in the operational costs reflected in the current budget estimate for 2020/21 and 2021/22 and overall would be cost neutral.

3.7 Invite (Horizon 2020) Operational Costs

The Invite budget relates to a three-year Horizon 2020 project ending in 2020/21.

3.8 Other Operating Costs

An on-going corporate delivery budget of £330,000 is required for general LEP running costs for example IT equipment, travel expenses and support services. In addition, the North East LEP led SEP strands including Innovation, Business Growth and Skills have an operational allocation to ensure delivery and that the necessary progress can be obtained. Allocations for LGF finance and legal support provided by the accountable body, Investment Fund (NEIF) support and Enterprise Advisor delivery are also included.

The total budget for 2019/20 to 2021/22 is broken down over the noted areas as follows;

Delivery Area	Budget (£000)
Corporate/ General	330
Innovation	110
Strategic Policy & Economic Analysis	80
Business Support/Access to Finance	24
Skills	20
LGF Legal and Finance Support	50
Operating Costs TOTAL	614

Although this budget figures has been continued over the whole of the three-

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year period, it will be kept under review each year and elements could change from one year to another. There is flexibility within the budget and it could be reduced in 2021/22 if this was necessary.

3.9 Inward Investment Contribution

The agreed allocation of £140k per annum is included in the budget for 2019/20 and 2020/21. There is a proposed reduction to £50k in 2021/22 to coincide with the overall reduction in income and this could be increased to its previous level if additional funding is secured and match funding continues to be provided by the local authorities, which has been only agreed for 2019/20 at this time.

3.10 LGF External Consultancy

A £50k per annum Legal and Finance allocation has been retained for 2020/21 to commission external consultancy where specialist support and advice is required, particularly for project appraisals.

3.11 Income

3.12 LEP Core Funding & Strategy Grant

Funding of £500k is expected to continue over the medium term although it is only confirmed by Government in the Spring of the Calendar year to which it relates. The Local Authority Match Contribution requirement of £250,000 was agreed at the NECA Leadership Board meeting held on 5th February 2019 and the NTCA Cabinet meeting on 5th February 2019, this will be provided in equal 1/7th shares by the 7 Local Authorities that are members of the North East LEP for 2019/20. It is considered on an annual basis.

3.13 BEIS LIS Review

As outlined in section 2.7, BEIS have indicated that a further £200k of LEP review/support funding will be made available in 2019/20; although this is subject to formal confirmation. BEIS have also informally suggested that the overall LEP capacity allocation is being positively reviewed.

3.14 Local Growth Fund (LGF)

As previously agreed by the Board, a 2.5% top-slice of the Local Growth Fund allocation is available to support the delivery of the programme, primarily LEP team staffing costs. Although the LGF programme officially ends in 2020/21, by using funding SWAPs, funds will be available in 2021/22 to support the extended activity. As the programme reaches conclusion there has also been a reduction in qualifying expenditure which explains the decrease between years. The drawdown of the balance of the top-slice budget is profiled to be made as

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follows;

	2019/20 £000	2020/21 £000	2021/22 £000
LGF Programme Management	950	850	518

3.15 Local Growth Fund Interest

As the annual LGF grant allocation is paid by government in full at the beginning of the financial year, the cash balances held are able to attract sizeable interest sums. An estimate for each financial year is included within the budget, based on an assumption of the timing of LGF expenditure. The level of interest generated naturally reduces in line with the reducing LGF grant receipts in future years. We will continue to seek to maximise the level of interest earned on cash flow balances and will update the estimate when the budget is reviewed during the year.

3.16 Growth Hub Grant

The continuation of the Growth Hub grant funding has been confirmed for 2019/20 at £410k. It is expected to continue at least the same level for the ensuing two years although we await confirmation and exact details.

3.17 Careers Enterprise Company (CEC)

An allocation of £295k CEC funding was secured and made available until August 2020 and alongside ESF funding enables the Enterprise Advisor roles to continue and the creation of Enterprise Co-ordinators positions plus a Careers Hub Facilitator on a FTC basis. The figures included in the budget represent the expected grant drawdown in each of the respective years.

3.18 Energy Strategy Grants

Approximately £100k of available grant funding remains at the beginning of 2019/20 and the expected drawdown to mainly cover the costs of the Energy Programme lead is reflected and is budgeted to cease by the end of June 2021, unless alternative budget is secured.

3.19 Invite (Horizon 2020)

An allocation of 271k euros which equates to approximately £242k was made available until March 2021, with activity beginning in 2017/18. The expected drawdown for the next two financial years is reflected in the budget.

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3.20 ERDF, Digital Catapult and AHSN

Approximately £70k of ERDF and Digital Capital funds remain at the beginning of 2019/20 after taking into account the drawdown in 2018/19 and used to fund the Digital Lead budgeted to continue until the end of March 2020. AHSN have agreed to provide funding for a Life Sciences specialist until the end of March 2021.

3.21 NEIF / EZ contributions

Relates to support in these areas to cover the cost of the two dedicated programme managers.

3.22 European Social Fund and LGF North East Ambition match funding

The LEP was successful in securing ESF grant totalling £1,059k (which has subsequently been revised to £1,040k), and is available until March 2021. The budgeted drawdown for 2019/20 and 2020/21 is reflected within the budget. As part of this bid a supplementary match contribution of £750k towards the North-East Ambition project from the LGF was made over the same period, which is in addition to the existing LGF programme management contribution.

3.23 EY and DfE

EY have agreed to contribute £75k towards the North East LEPs skills programme. In addition, the DfE are providing funding towards the North East LEPs analyst activity over the next two years.

3.24 Other Income

Local Authorities are also billed for 1/8th contribution towards an ESF Co-ordination role.

North East Joint Transport Committee

Date: 23 October 2019

Appendix 2

Subject: Budget Proposals 2020/21

Report of: Chief Finance Officer

Executive Summary

This report provides a summary of the proposed draft Transport budget and levies for 2020/21 and provides an update on the position in the current year. The report also includes indicative summary budget information for 2021/22 and 2022/23.

In terms of the current year, the transport levies and grants to Durham, Northumberland and Nexus are fixed for the year, so the outturn will be in line with the original budget allocations.

The budget strategy outlined in this report is based on an assumption of a levy for 2020/21 for Tyne and Wear in line with the current year, representing a cash freeze. On this basis, the proposed levy for 2020/21 would be £61.1m. Nexus is anticipating significant budget pressures over the medium term and will need to factor a levy freeze into its planning assumptions for 2020/21 and over the medium term.

Durham and Northumberland are currently developing their transport budget proposals for 2020/21 and future years, which will be reported to the next meeting and which will determine the total for their levies.

It is proposed to continue the contribution of £10,000 per authority which is retained from the Durham and Northumberland levies and which funds the work of the Joint Transport Committee, including contributions to the post of the Managing Director, Transport North East and the Transport Strategy Unit. The contribution from the Tyne and Wear levy to fund central activity will be £2.1m (in line with current allocations), which is mainly used to meet costs relating to the operation of the former Tyne and Wear Integrated Transport Authority.

It is proposed that funding for the Transport Strategy Unit from the Local Transport Plan Integrated Transport Block grant is maintained at the current level of £500,000 (£62,500 per council and Nexus).

The forecast position for 2019/20 for the Tyne Tunnels revenue account is for a breakeven position after making additional provision for the repayment of debt and the costs of the new Tyne Tunnel Manager. The estimates for 2020/21 build in the full year costs of the new Tyne Tunnels Manager position and also indicate a breakeven position next year. Provision

has been made for one off costs of the Tyne Pass Project in the current and next year. The draft budget estimates for 2020/21 have been prepared on the basis that increases in the Retail Price Index will trigger an increase in the toll for Class 3 vehicles (HGVs) next year.

Recommendations

The North East Joint Transport Committee is recommended to:

- i. Receive this report for consideration and comment;
- ii. Note the projected outturn position for the 2019/20 Transport budget, as set out in the report;
- iii. Consider the following budget assumptions / proposals and agree to these forming the basis of consultation on the 2020/21 Transport Budget:
 - a. That the 2020/21 Transport Levy for Tyne and Wear is indicatively to be set at £61.1m, which represents a cash freeze compared with the current year;
 - b. That the revenue grant to Nexus for 2020/21 is indicatively proposed to be set at £59.0m, which is a cash freeze compared with the current year total;
 - c. That contributions of £500,000 to the Transport Strategy Unit are top sliced from Local Transport Plan Integrated Transport Block grant received by the JTC in 2020/21;
 - d. That the Tyne Tunnels Tolls are proposed to be increased to keep pace with inflation and the increase in the shadow toll payable to the concessionaire TT2 Ltd., in line with the concession contract and the agreed approach to the funding of the Tyne Tunnels. (Note: The decision to increase the Tyne Tunnel Tolls will be taken by the Tyne and Wear Sub Committee in January 2020)
- iv. Note the indicative budget forecasts for 2021/22 and 2022/23, as set out in the report;
- v. Note that the budget proposals for Transport will be subject to a consultation process including reports to the Joint Transport Committee Overview and Scrutiny Committee, Joint Transport Committee Audit Committee, relevant officer groups and the Leadership Board of NECA and the NTCA Cabinet;
- vi. Note the intention to consider the Transport Budget in more detail at the next meeting on 19 November 2019, and to approve the budget and agree the Transport Levies at the meeting of the JTC on 21 January 2020, after considering any comments received on the proposals and decisions reached by the Tyne and Wear Sub Committee in January 2020.

1. Background Information

- 1.1 The North East Joint Transport Committee receives funding from a variety of sources including the levies on Durham, Northumberland and Tyne and Wear councils, Tyne Tunnels tolls income, grant funding and interest income. This funding is used to deliver the transport objectives of the Committee through the provision of revenue grants to Durham and Northumberland councils and Nexus for the delivery of public transport services, the funding of the Tyne Tunnels and the provision of the Transport Strategy Unit which works on behalf of the Joint Transport Committee to provide it with relevant information and policy choices and deliver its policies at a regional level.
- 1.2 In line with the Transport Levying Bodies Regulations 1992, the transport levies must be issued by 15 February preceding the commencement of the financial year in respect of which they are to be issued.
- 1.3 This report summarises the process and timetable for approval of the levies and other budgets relating to the Joint Transport Committee and sets out initial proposals for these budgets. The proposals will be further developed and consulted upon in the coming months, and reports will be presented to the committee at its meetings on 19 November 2019 and 21 January 2020. The report includes indicative budget forecasts for 2021/22 and 2022/23.
- 1.4 Appendix 1 shows the timetable for the agreement of the Joint Transport Committee budget for 2020/21. The timetable is in line with the requirements of the constitution agreed by the North East Combined Authority, who are the accountable body for transport matters.

2. Proposals

Transport Levies

- 2.1 As the transport levies and revenue grants are normally fixed for the year there is no change in the levies payable and grants payable between the original budget and the forecast outturn, and minimal change in the retained transport levy budget. Any surplus or deficit against the budgets for the three main delivery agencies (Durham County Council, Northumberland County Council and Nexus) is retained or managed within the reserves of that organisation.
- 2.2 A proportion of the levies is retained to support the work of the JTC and meet historic costs relating to the former Tyne and Wear Integrated Transport Authority (TWITA). This budget is expected to underspend slightly due to lower interest charges than originally budgeted on historic Tyne and Wear Transport debt and the forecast underspend will be transferred to the JTC retained reserves at year end.

Table 1: 2019/20 Transport Levies and Grants

	2019/20 Original Budget	2019/20 Forecast Outturn	2019/20 Forecast Variance
	£000	£000	£000
Total Transport Levies	(82,766)	(82,766)	0
Grant to Durham	15,552	15,552	0
Grant to Northumberland	6,094	6,094	0
Grant to Nexus	55,667	55,667	0
Contribution to Metro Fleet Replacement reserve	3,333	3,333	0
Retained Transport Levy budget	2,120	2,091	(29)
Net	-	(29)	(29)
Contribution to/ (from) JTC unearmarked reserves	-	29	29

Tyne and Wear Levy

- 2.3 The 2020/21 levy for Tyne and Wear is assumed to be a cash freeze for 2020/21 and totals £61.1m. The grant from the levy for Nexus has been reduced by £15.2m (20%) over the last 10 years as local authorities have managed extremely challenging central government funding settlements. Nexus are expecting some significant financial pressures over the medium term. The impact of retaining the levy for Tyne and Wear authorities at the current level will be carefully considered by Nexus and future budget reports will set out the likely impact on the Nexus medium term financial plan as cost pressures and details of available income are further refined.
- 2.4 The distribution of the levy within Tyne and Wear is based on population, in accordance with the Transport Levying Bodies Regulations 1992. The amounts levied on each individual authority need to be adjusted to reflect the mid-year population estimate for 2018. Increases in the share of the population for Newcastle and North Tyneside mean that the share of the levy for these authorities will increase in 2020/21, while there will be compensating small decreases for Gateshead, South Tyneside and Sunderland in 2020/21. Based on a levy freeze, the proposed levy for each of the Tyne and Wear councils next year is shown below:

Table 2: Distribution of Proposed Tyne and Wear Transport Levy

	2019/20 T&W Transport levy	2018 Mid-Year Population Estimate	2020/21 T&W Transport Levy Proposal	Levy Change Year on Year	Levy Change Year on Year
Tyne & Wear	£		£	£	%
Gateshead	10,949,433	202,508	10,888,380	(61,054)	(0.56)
Newcastle	16,002,955	300,196	16,140,834	137,879	0.86
North Tyneside	11,060,540	205,985	11,075,330	14,790	0.13
South Tyneside	8,089,866	150,265	8,079,396	(10,469)	(0.13)
Sunderland	14,997,206	277,417	14,916,061	(81,145)	(0.54)
Total	61,100,000	1,136,371	61,100,000	0	0.00%

Nexus

- 2.5 A separate report on draft budget proposals for Nexus is included on the JTC agenda. This sets out the significant cost pressures which are affecting the Nexus budget for 2019/20 and future years, and the impact of a range of scenarios on the forecast budget deficit: a cash freeze in the grant from the Tyne and Wear Levy, a 2% increase in 2020/21 and the deployment of reserves to cushion the impact of budget pressures over the medium term as a short term measure to set a balanced budget.
- 2.6 This consolidated report is prepared on the basis of one of these scenarios (a cash freeze). These planning assumptions will be updated as necessary for the report to the next meeting of the Joint Transport Committee on 19 November 2019 to reflect the views from this meeting and other consultations.

Transport Strategy Unit

- 2.7 The Transport Strategy Unit (TSU) (previously referred to as the Regional Transport Team) supports the Joint Transport Committee, providing relevant information to support policy choices and to deliver policies at a regional level. The TSU's activities include developing and maintaining:
- The Transport vision and plan;
 - The funding plan and bids for external funding;
 - Input into the LEP's strategies and plans on transport, and local business organisations;
 - A project pipeline and assurance framework;
 - Responses to transport consultations and policy-making opportunities by government and other external agencies;
 - Input into Transport for the North (TfN)'s pan-Northern policies and plans; and

- Relationships with other authorities (whether local, combined, national or sub-national) with whom the Joint Transport Committee may share a common interest.

- 2.8 During 2018/19 and 2019/20 the capacity of the TSU has been temporarily enhanced through secondments and fixed term contracts to prepare the bid against Transforming Cities Fund Tranche 2. This work will be complete before the end of the current financial year. The 2020/21 draft budgets have not made any assumptions on funding to be received from the Transforming Cities Fund Tranche 2 bid. Should the bid be successful, costs of programme management have been built into the bid and the budget for 2020/21 and future years will be updated accordingly.
- 2.9 In addition to the significant current activity of developing the Transport Plan and related delivery programmes, some other major upcoming policy developments could potentially include the development of a new bus strategy, the expansion of the Metro and local rail network, developing a model for rail devolution, and growing the programme to increase the uptake of walking and cycling. Further work is required in considering the scope of these developments, with funding packages to be agreed once requirements are clearer. There are also significant funding opportunities for well-developed bids along with a need for strong delivery programme management.
- 2.10 The TSU is funded through contributions from the Transport Levies which are retained to support JTC activity, a top-slice of the Local Transport Plan Integrated Transport Block grant which is awarded to the JTC and external contributions to some specific posts.
- 2.11 A summary of the forecast position for 2019/20 including the TCF bid resources (which was agreed after the original budget was set in January 2019) and the initial proposed budget for 2020/21 is set out in the table below. The budget for 2020/21 and future years will be updated once the updated Transport Plan is agreed which will set clear priorities for the work of the TSU.

Table 3: Transport North East Strategy Unit Budget

	2019/20 Original Budget	2019/20 Forecast Outturn	2019/20 Forecast Variance	2020/21 Initial Estimates
	£	£	£	£
Gross Expenditure				
Managing Director Transport North East and Transport Strategy Unit	658,405	584,251	(74,154)	692,631
Transport Plan	50,000	70,000	20,000	15,000
Transport Strategy Unit: Research and Development	180,000	183,044	3,044	173,000
Transport Strategy Unit: Travel and Miscellaneous	6,000	14,800	8,800	16,000

	2019/20 Original Budget	2019/20 Forecast Outturn	2019/20 Forecast Variance	2020/21 Initial Estimates
	£	£	£	£
Transport Strategy Unit: IT/Equipment/Accomm	0	20,000	20,000	20,000
Salaries and secondment costs – Transforming Cities	241,856	233,847	(8,009)	0
Consultancy and other costs of bid preparation – Transforming Cities	191,218	191,218	0	0
Total Expenditure	1,327,479	1,297,159	(30,319)	916,631
Gross Income				
LTP funding - TSU	(500,000)	(500,000)	0	(500,000)
LGF funding - TSU	(100,000)	(100,000)	0	(100,000)
LGF funding - TCF	(100,000)	(100,000)	0	0
LTP/Levy funding - TCF	(233,074)	(233,074)	0	0
Retained Transport Levy	(31,870)	(47,671)	(15,801)	(128,773)
External funding for specific posts	(139,102)	(149,598)	(10,598)	(142,198)
Total Income	(1,104,046)	(1,130,343)	(26,297)	(870,971)
Net	223,433	166,816	(56,617)	45,660
Use of Reserves to Fund Net Expenditure				
Transport Strategy Unit Reserves	(123,433)	0	123,433	(30,660)
Go Smarter legacy funds – Transforming Cities Fund	(100,000)	(100,000)	-	0
Go Smarter legacy funds - Other	0	(30,044)	(30,044)	(15,000)
Earmarked reserves – Transforming Cities Fund	0	(36,772)	(36,772)	0

2.12 The forecast outturn for salaries is significantly less than the original budget due to a number of vacancies in the team which have not yet been filled. These vacancies have offset a cost pressure for pension contributions which has arisen because the budget assumed that employees would all have transferred to the employment of NECA and associated pension savings would have been made. This transfer is unlikely to take place before 1 January 2020. By the end of September 2019, unbudgeted pension costs of £32,518 had been incurred.

2.13 An increase in forecast costs in relation to the Transport Plan is reflected in the 2019/20 outturn as a result of additional work on the Plan requested by the Joint

Transport Committee. Go Smarter legacy funds will be used to fund these additional costs.

- 2.14 A new budget line for IT/Equipment and Accommodation costs for the TSU has been added to the forecast outturn for 2019/20 to meet costs which are anticipated to arise from the planned relocation of the TSU to Gateshead Civic Centre.
- 2.15 The original budget for the year contained a significant use of the general reserve which was built up through underspends on the budget in previous years. This is now not forecast to be required in 2019/20 due to anticipated in year savings - particularly in relation to salaries and through the identification of alternative resources to fund activity. An earmarked reserve to part-fund the TCF bid work was established at the end of the 2018/19 financial year to ringfence an underspend in the contribution from the Transport levy and which was not included in the original budget

Tyne Tunnels

- 2.16 The Tyne Tunnels are accounted for as a ring-fenced account within the JTC/NECA budgets, meaning that all costs relating to the tunnels are wholly funded from the toll's income received and Tyne Tunnels reserves, with no call on the levy or other external government funding. The JTC receives all the toll income from the vehicle tunnels, and a payment under the contract with TT2 is determined based on traffic levels. The balance retained by the JTC is to meet other costs associated with the Tyne Tunnels namely interest and principal repayments on borrowing taken out to fund the New Tyne Crossing project and client costs associated with the management of the contract with the concessionaire.
- 2.17 The forecast outturn position for 2019/20 is for a small surplus of around £52,000 which is mainly as a result of additional interest income on balances held by the JTC. Traffic levels have been largely in line with forecasts, slightly higher than in 2018/19 but traffic flow levels remain less than the levels experienced in 2016/17 prior to the commencement of Highways England works at Silverlink in North Tyneside. The forecasts include the costs of the new Tyne Tunnel Manager (currently out for recruitment) and the full year costs of this new role is included in the estimates for 2020/21.
- 2.18 The tables below provide a summary of the forecast for 2019/20 and the indicative budget for 2020/21 and future years.

Table 4: Tyne Tunnels Budget Forecast 2019/20

	2019/20 Original Budget	2019/20 Forecast	Variance
	£000	£000	£000
Tolls Income	-28,090	-28,141	-51
Contract Payments to TT2	21,197	21,221	24
Employees	0	16	16
Historic Pension costs	52	52	0
Support Services	95	145	50
Supplies & Services	45	35	-10
Financing Charges	6,966	6,988	22
Interest/Other Income	-290	-368	-78
Contribution (to)/from Reserves	-25	-52	-27

- 2.19 A new post of Tyne Tunnels Contract Manager was approved by the JTC in September and is currently being advertised. This role will manage the client-side aspects of the Tyne Tunnel Project Agreement with TT2 and act as the principle point of liaison with the Concessionaire so that contractual matters are dealt with in a timely and efficient manner. The part-year costs of the post are built into the revised forecast for 2019/20 and the full year costs from 2020/21 onwards, which is the reason for the variance in Employee costs in the 2019/20 forecast. Once this post is filled and handover has been completed there will be a reduction in the budget for support services, as support has previously been provided by the NECA Chief Finance Officer and Monitoring Officer and individuals at Newcastle City Council.
- 2.20 As previously reported to the Tyne and Wear Sub Committee, TT2 have brought forward proposals to introduce a Tyne Pass process using Automatic Number Plate Recognition as a pre-cursor to a longer term aim of having a free flow system in place in the future where there would be no toll booths on the plazas.
- 2.21 These proposals would require changes to the Tyne Tunnels Byelaws, the Project Agreement and financial model for the contract. A temporary increase in the support services budget for the Tyne Tunnels is therefore proposed for the 2019/20, 2020/21 and 2021/22 financial years to meet the additional costs from the client side of implementing the project, such as external professional advice. This can be met from within the Tyne Tunnels budget and will be kept under review as the project progresses.

Table 5: Tyne Tunnels Initial Estimates 2020/21-2022/23

	2020/21	2021/22	2022/23
	£000	£000	£000
Tolls Income	-28,422	-28,919	-29,642
Contract Payments to TT2	21,633	22,505	22,942
Employees	62	63	65
Historic Pension costs	53	55	56
Support Services	100	102	104
Supplies & Services	46	47	48
Financing Charges	6,756	6,416	6,673
Interest/Other Income	-290	-290	-290
Contribution (to)/from Reserves	-61	-22	-45

2.22 The 2020/21 tolls income estimate assumes an increase in tolls to £3.90 for Class 3 vehicles in line with inflation as measured by the Retail Price Index (RPI) – a year on year increase of £0.10 (2.6%). It is not anticipated that an increase in the tolls for Class 2 vehicles will have been triggered by the increase in RPI until the 2021/22 financial year, as increases can only be applied in 10p increments. These charges are therefore likely to remain at £1.80 in 2020/21.

2.23 In terms of the formal process for the increase in Tolls, if the level of RPI has reached the point at which an increase is possible, a decision to increase tolls will be taken by the Tyne and Wear Sub Committee in January 2020. If a decision to increase the tolls is taken, officers from NECA as the Accountable Body for the JTC will follow the process set out in the Tyne Tunnels Order 2005 to implement the decision of the committee. This will involve advertising the proposed increase in at least one local newspaper and notifying the Department for Transport. Once notified, the Department has 21 days to determine whether to take the order and, if so, the order will be made 28 days before it comes into effect. A decision on the specific date for implementation will be taken in conjunction with TT2, taking into account operational considerations. The increase, if implemented, would come into effect after May 2020 and will be discussed in greater detail with the Tyne and Wear Sub Committee.

3. Reasons for the Proposals

3.1 The proposals are presented here to inform the JTC of work on the preparation of the 2020/21 Transport Budget and to begin the budget consultation process in line with the process set out in the NECA constitution in its role as Accountable Body for Transport. The report sets out indicative forecasts for 2021/22 and 2021/22.

4. Alternative Options Available

4.1 Option 1 – The North East Joint Transport Committee may accept the recommendations set out in the report.

Option 2 – The North East Joint Transport Committee may suggest amendments or alternative proposals be considered.

Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 Proposals are at an initial draft stage and further work will be ongoing in developing these further over the coming weeks. More detail will be presented to the JTC at its meeting on 19 November 2019, with a view to recommending formal agreement to the budget and levies in January 2020.

5.2 Appendix 1 shows the budget timetable for setting the 2020/21 budget.

6. Potential Impact on Objectives

6.1 The budget presented in this report is set to achieve the Transport policy objectives of the Authority.

7. Financial and Other Resources Implications

7.1 The financial and other resource implications are summarised in detail in the body of the report where they are known. Further details which are developed as part of the budget development and consultation process will be identified in reports to the November 2019 and January 2020 reports to the Committee.

7.2 The budget strategy outlined in this report is based on a levy for 2020/21 for Tyne and Wear in line with the current year, representing a cash freeze. On this basis the total levy for 2020/21 would be £61.1m. This position would provide a significant challenge for Nexus, who have seen the levy reduced by £15.2m (20%) over the last 10 years and who are expected to face significant financial pressures in the coming three years. The sustainability of retaining the levy for Tyne and Wear authorities at the current level will need to be carefully considered over the medium term.

8. Legal Implications

8.1 The JTC must ultimately approve the transport budget and levies unanimously.

9. Key Risks

9.1 Appropriate risk management arrangements are put in place in each budget area by the delivery agencies responsible. Reserves are maintained to help manage financial risk to the authority.

10. Equality and Diversity

10.1 There are no equality and diversity implications arising from this report.

11. Crime and Disorder

11.1 There are no crime and disorder implications arising from this report.

12. Consultation/Engagement

12.1 The NECA Constitution (in its role as accountable body for the JTC) requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed.

12.2 The extent of public consultation will be proportionate to the impact that the proposals would have on services to the public. At this stage no significant service reductions or implications are expected in 2020/21, however, if the Tyne and Wear levies are frozen again in 2021/22 this will provide a challenge to Nexus. Proposals will be published on the website for comment and included in any budget consultation undertaken by constituent authorities.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 Appendix 1 – Budget Timetable 2020/21 – Joint Transport Committee

15. Background Papers

15.1 JTC Budget 2019/20 report 22 January 2019

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager,
eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign off

- The Proper Officer for Transport: ✓
- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

18. Glossary

DfT – Department for Transport

NECA – North East Combined Authority

NTCA – North of Tyne Combined Authority

TfN – Transport for the North

TSU – Transport Strategy Unit

TT2 – TT2 Ltd, Tyne Tunnels Concessionaire

Appendix 1 – Budget Timetable 2020/21 – Joint Transport Committee

Date	Meeting/Event	Action
14 August 2019	Tyne and Wear Sub-Committee (Briefing)	Consider 3 year forward forecasts of budget pressures and issues in relation to Nexus
17 September 2019	North East Joint Transport Committee (Briefing)	Consider 3 year forward forecasts of budget pressures and issues in relation to Nexus
23 October 2019	North East Joint Transport Committee	Initial budget proposals and 3-year forecasts in relation to JTC/Transport budgets. Consultation requirements to be considered / agreed
7 November 2019	Joint Transport Committee Overview and Scrutiny Committee	Examine initial budget and consultation proposals and make any recommendations to the JTC
19 November 2019	North East Joint Transport Committee	Consider updated draft Transport budget proposals and any feedback from JTC Overview & Scrutiny Committee
21 November 2019	Tyne and Wear Sub-Committee	Consider report on the draft budget proposals with specific reference to Tyne and Wear Transport activity
26 November 2019	NTCA Cabinet Meeting	Consider draft Transport budget proposals developed by JTC and implications regarding Transport Levy for constituent authorities as part of the budget consultation process
TBC – Meeting to be arranged w/c 9 December 2019	NECA Leadership Board	Consider the decisions and any recommendations made by the JTC and JTC Overview and Scrutiny Committee
12 December 2019	Joint Transport Committee Audit Committee	Consider budget proposals as part of consultation process
19 December 2019	JTC Overview and Scrutiny Committee	Consider (updated) budget proposals as part of consultation process (if necessary)
21 January 2020	North East Joint Transport Committee	Approve Transport Revenue Budget and Transport Levies
28 January 2020	NTCA Cabinet Meeting	Formally agree to issue the Transport Levy to constituent NTCA authorities

Date	Meeting/Event	Action
4 February 2020	NECA Leadership Board	Leadership Board formally issue levy agreed by Joint Transport Committee in January. Formal agreement of non-Transport budgets and contributions.
15 February 2020	Levy letters issued to constituent authorities	Date by which Transport levies must be issued in line with Transport Levying Bodies Regulations

North East Joint Transport Committee

Date: 23 October 2019

Appendix 3

Subject: Nexus Budget Strategy – Medium Term Financial Planning 2020/21 – 2022/23

Report of: Director of Finance and Resources, Nexus

Executive Summary

This report sets out details of the budget pressures and issues facing Nexus over the next three years and seeks the views of the Committee on such matters to inform its approach to its medium term financial plan, in particular the implications of Nexus preparing its budget for 2020/21.

Recommendations

The North East Joint Transport Committee is recommended to note the contents of this report, consider the implications arising from the budget pressures and issues facing Nexus and provide initial comments in order to inform its approach to its medium term financial plan.

1. Background Information

- 1.1. When the Joint Transport Committee (JTC) agreed Nexus' budget in January 2019, the intention was to use reserves in 2019/20 and 2020/21 with the position thereafter likely to require either additional investment or a review of services given that significant efficiencies had been realised over the last ten years without impacting on service delivery.
- 1.2. The medium-term forecast set out at that time (against Nexus' share of the Tyne and Wear transport levy) is summarised below:

Table 1: Medium Term Financial Forecast (January 2019)

	2019/20	2020/21	2021/22
	£m	£m	£m
ENCTS	34.529	34.594	35.350
Discretionary Concessionary Travel	3.708	3.679	3.867
Metro	1.442	3.605	5.283
Ferry	1.004	1.062	1.128
Local Rail	0.190	0.199	0.215
Bus Services	11.737	12.116	12.615
Bus Infrastructure	2.528	2.576	2.632
Public Transport Information	1.228	1.234	1.321
NET FUNDING REQUIREMENT	56.367	59.066	62.411
JTC GRANT (LEVY)¹	(55.667)	(59.000)	(59.000)
(SURPLUS)/DEFICIT	0.700	0.066	3.411

- 1.3. The net funding requirement is after taking account of government grants, fare revenue and commercial income, most of which is secured in order to run the Tyne and Wear Metro. The net funding requirement represents the reliance Nexus places on the grant it receives from the JTC, which principally funds bus contracts, concessionary fares and public transport infrastructure.
- 1.4. In 2010, the JTC grant (levy) was £74.2m. In 2020/21 it will be £59.0m, a reduction of £15.2m or 20% over the last 10 years. By contrast, funding for the Metro has increased. In the past 5 years, Metro fare revenue has grown by £6.0m (or 15%) whilst Metro Rail Grant (MRG) from the Department for Transport (DfT) has

¹ The JTC Grant / Levy was reduced by £3.333m in 2019/20 in order to part fund the local contribution towards the new fleet of Metrocars. This retained funding, which will amount to £10.000m as at 31 March 2020 is held in an earmarked reserve by the NECA. The £3.333m is reinstated in future years.

increased by £1.6m (or 7%). Consequently, only £1.4m of Nexus' net funding requirement in 2019/20 relates to Metro, whilst Metro's gross budget in 2019/20 is in excess of £100.0m.

1.5. Over the past few years, Nexus has delivered a range of efficiency savings in order to protect frontline services. Most notably:

- Headcount reduced by 20%;
- The cost of operating Metro has reduced by circa £2m per annum after the concession with DB Regio ended in March 2017; and
- A range of other savings have been achieved e.g. in tendered bus services and concessionary fares reimbursement.

1.6. In addition, since 2014, Nexus has generated surpluses of £11m, of which £7m has been invested in transport infrastructure, with the balance increasing usable reserves, which are available to support frontline services.

2. The 2019/20 forecast and its impact on future years

2.1 In the run up to the end of the 2018/19 financial year and in the early part of 2019/20, a number of budget pressures have emerged. The 2019/20 deficit has increased from £0.7m to £4.1m, an increase of £3.4m. It should be noted that £1.1m of this variance relates to the development of Transforming Cities Fund (TCF) bids, such costs being non-recurring and possibly subject to capitalisation and potential recovery from any Transforming Cities Fund allocations once they are known.

2.2 The remainder is mainly explained by:

- A reduction in Metro fare revenue of £1.2m (this equates to over 2% of the farebox) and broadly reflects the outturn position in 2018/19 also;
- A reduction in Secured bus services fare revenue of £0.3m (this equates to circa 10% of the farebox);
- The April 2019 pay award for Nexus (and NEMOL) employees were both 0.5% in excess of the budget provision, adding a £0.3m pressure; Contract inflation relating to high voltage power and cleaning, which are forecast to be £0.5m and £0.2m in excess of budget respectively;
- Responses to catastrophic overhead line failures in May 2019 have added a £0.3m budget pressure;
- Train crew overtime has added a £0.5m pressure; and
- These cost pressures have been mitigated by:
 - The reclassification of capital grant as revenue grant (£0.5m);
 - A reduction in contract costs relating to the secured bus network (£0.3m); and
 - An increase in investment income (£0.2m).

2.3 Without intervention, most of these in-year pressures (and savings) will carry forward to next year, meaning that the full year effect will impact on the three-year forecast, 2020/21 to 2022/23. Broadly speaking, the medium term forecast, updated to take into account these cost pressures is set out in the table below (compared to that which was submitted to the JTC when the 2018/19 budget was set):

Table 2 – Updated Medium Term Financial Forecast

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
January 2019 Deficit (Table 1)	0.7	0.1	3.4	N/A
August 2019 Deficit	4.1	1.6	4.7	7.3
Deterioration in Forecasts	+3.4	+1.5	+1.3	+7.3

2.4 It should be noted that detailed work is ongoing in order to refine these estimates. However, it is evident that pay and contractual inflation, known commitments and additional pressures in order to ‘standstill’ continue to grow, whilst estimates of future revenues at best show only a marginal increase. In compiling these broad estimates for 2020/21 to 2022/23, there is an assumption that:

- Services are maintained at current levels, with previous commitments
- Pay and contract prices (including concessionary fares reimbursement) will broadly increase in line with inflation;
- MRG will increase in line with inflation (increasing from £25.1m to £25.6m, confirmed by DfT on 10 October 2019);
- Metro fares will increase in line with inflation;
- JTC grant will be £59.0m in 2020/21; and
- Nexus’ 2019 pension valuation will continue to show a surplus.

3. Impact of the new Metrocar fleet

3.1 As Nexus prepares to award contracts for the manufacture and supply of its new train fleet and depot, together with the maintenance of its old Metrocars (MMA) and the new train fleet (TSA), it is apparent that there will be additional costs arising, which are not yet factored into the forecast set out in paragraph 2.3 above. These include:

- Fleet engineering costs are expected to increase, although in the time horizon associated with this medium term financial plan, an earmarked reserve created in anticipation of the transition from the old Metrocars to the new trains will help cover this additional cost; and

- Trades unions representing the train crew are seeking an increase in drivers' salaries because of the introduction of a more technologically advanced vehicle with resolution of this issue required prior to testing, commissioning and training, all of which are necessary for the new fleet to be successfully implemented.

3.2 Over the longer term, these costs will be offset by expected increases in Metro fare revenue and reductions in high voltage power consumption, however this will only be realised once the new fleet is operational.

3.3 Although it is too early to accurately assess the increase in costs associated with the introduction of the new fleet, the following table estimates the potential impact:

Table 3 – Forecasts Updated to reflect New Fleet Estimated Impacts

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
January 2019 Deficit	0.7	0.1	3.4	N/A
October 2019 Deficit	4.1	1.6	4.7	7.3
Potential Deficit (incl new fleet)	4.4	2.4	6.0	8.8
Deterioration in Forecasts	+3.7	+2.3	+2.6	+8.8

3.4 The cumulative deficit across the medium term is therefore estimated at circa £21.6m, with a budget shortfall of £4.4m in 2019/20 increasing to £8.8m by 2022/23.

4. Impact of 2019 Spending Round

4.1 The 2019 Spending Round outlined Government spending plans for 2020/21

4.2 The technical consultation relating to the Local Government Finance Settlement for 2020/21 was issued in October 2019. Final details of the settlement for individual local authorities will not be known until later this calendar year. Tyne and Wear local authorities are in the process of considering the potential outcome of the spending round and the implications for their funding for 2020/21. As part of considering available funding, consideration will need to be given to the levy for 2020/21 taking account of the information contained in this report.

4.3 As an example, a 2.0% increase on a base of £59.0m equates to £1.2m. Assuming this was applied in 2020/21, with a freeze thereafter, the impact on Nexus' medium-term forecast is set out below:

Table 4 – Impact of a 2% increase in grant (levy) in 2020/21

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
January 2019 Deficit	0.7	0.1	3.4	N/A
October 2019 Deficit	4.1	1.6	4.7	7.3
Potential Deficit (incl new fleet)	4.4	2.4	6.0	8.8
Impact of 2% increase in JTC grant (20/21 only)	4.4	1.2	4.8	7.6
Deterioration in Forecasts	+3.7	+1.1	+1.4	+7.6

A 1% levy change is approximately £0.6m

- 4.4 An increase of 2.0% would potentially allow Nexus to pursue some growth initiatives or fund planning studies into future service improvements.

5. Reserves Strategy

- 5.1 One legitimate means of dealing with the forecast deficit is to deploy reserves. This however can only ever be a short-term measure whilst more sustainable solutions are identified.. Nexus' reserves as at 31 March 2019 amounted to £50.3m², of which:
- £10.0m is assessed as being necessary to cushion the impact of unexpected events or emergencies arising;
 - £7.0m is earmarked for capital investment, mainly away from the Metro;
 - £3.0m is earmarked to cover the expected increase in the (fleet) MMA;
 - £14.0m is earmarked for the new fleet; and
 - £16.0m is available to underpin the revenue budget.
- 5.2 Options for how reserves might be used were discussed with members of TWSC at its policy seminar held on 15 August 2019. These included:
- Using reserves to deal with the in-year deficit only with potentially sizeable service reductions necessary from 2020/21 onwards if the level of grant (levy) to Nexus did not increase accordingly;
 - Deploying the full £16.0m reserve until it is fully exhausted, with sizeable service reductions required from 2022/23 onwards if the level of grant (levy) to Nexus did not increase accordingly; and
 - Taking a more prudent approach, whereby the budget deficit is only partly addressed through use of reserves, with more modest service reductions phased in over the medium term.

² This excludes reserves held by NECA of £6.7m in respect of the new fleet (increasing to £10.0m by 31 March 2020) and £9.2m in respect of the Metro Asset Renewal Programme

5.3 Feedback from TWSC members was that the more prudent approach should be adopted. Based on this feedback, and factoring in the latest forecasts of budget pressures, a proposed strategy to deploy reserves is illustrated in the table below³:

Table 5 – Utilising Reserves over the Medium-Term (Levy Freeze assumed)

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Potential Deficit (incl new fleet)	4.4	2.4	6.0	5.8
Potential use of Reserves	-4.4	-2.4	-3.0	-2.8
Potential Deficit (after use of reserves)	-	-	3.0	3.0
Remaining Usable Reserves	11.6	9.2	6.2	3.4

5.4 In the above forecast, there is an assumption that £3m of savings are delivered in 2021/22 and 2022/23, leaving savings of £2.8m to be achieved in 2023/24. At this point remaining reserves would be £3.4m.

6. Potential Impact on Services

6.1 The impact on services would need to be considered if, after use of reserves, and assuming there is no increase in the grant (levy), there was still a deficit to eradicate. This is highlighted in the table above.

6.2 In September 2016, Nexus reported to the TWSC the outcome of its public consultation, ‘Have Your Say’, which ranked Nexus’ services in order of importance⁴.

6.3 The ranking (with 1 denoting the most popular service and one that the public most wished to see protected) is replicated below:

Priority	
1	Bus services, Group travel and Ferry Services
2	Public Transport Information
3	Local Voluntary Concessions
4	Bus Waiting Facilities
5	Major Projects

³ This shows the deployment of reserves in the 2020/21 JTC grant (levy) freeze scenario only. If the JTC grant (levy) was increased by 2% in 2020/21, remaining usable reserves in 2022/23 would increase to £6.8m.

⁴ The consultation only focused on ‘discretionary’ levy funded services and therefore did not focus on the statutory elements of the English National Concessionary Travel Scheme or the Tyne and Wear Metro (because of the way in which Metro is funded i.e. primarily from fare revenues and government grant).

7. Proposals

- 7.1 This report sets out details of the budget pressures and issues facing Nexus over the next three years and seeks the views of the Committee on such matters to inform its approach to its medium term financial plan, in particular, the implications of Nexus preparing its budget for 2020/21 on the basis that its grant from the Committee will be kept at 2019/20 levels.

8. Reasons for the Proposals

- 8.1 To consider the implications arising from the budget pressures and issues facing Nexus and provide strategic guidance to Nexus in order to inform its approach to its medium term financial plan.

9. Alternative Options Available

- 9.1 The development of Nexus' medium-term financial plan depends largely upon the level of its future grant from the Committee, the deployment of its reserves and how any necessary service reductions will be agreed and implemented in the future should that be necessary.

10. Next Steps and Timetable for Implementation

- 10.1 The budget timetable setting out next steps and timetable for implementation is attached at Appendix 2.

11. Potential Impact on Objectives

- 11.1 Nexus' future spending plans and resources will have a direct impact on the ability to achieve the objectives within the Tyne and Wear Local Transport Plan and associated policies and strategies.

12. Financial and Other Resources Implications

- 12.1 Financial implications are considered throughout this report. The report exemplifies the significant cost pressures which are affecting the Nexus budget for 2019/20 and in future years, and the impact of a range of scenarios on the forecast deficit: a cash freeze in the grant from the Tyne and Wear Levy, a 2% increase in 2020/21 and the deployment of reserves to cushion the impact of budget pressures over the medium term as a short term measure to set a balanced budget.
- 12.2 Budget planning assumptions, particularly the approach to achieving savings can have a direct impact on staffing levels within the services provided by Nexus.

13. Legal Implications

- 13.1 There are no legal implications arising directly from the recommendations in this report.

14. Key Risks

- 13.1 The key risks outlined in this report relate to sustainability of current service delivery going forward given the significant financial challenges facing Nexus. The final budget proposals will include an assessment of risk facing the Nexus budget, which will be used to inform the level of reserves that are determined to be prudent. This report highlights a range of financial pressures and issues facing Nexus over the next three years and seeks the views of the Committee on such matters to inform its approach to its medium term financial plan, in particular the implications of Nexus preparing its budget for 2020/21 on the basis that its grant from the Committee will be kept at 2019/20 level. The report is for information and discussion as part of the budget process and has no specific risk management implications at this stage.

15. Equality and Diversity

- 15.1 There are no specific equalities and diversity implications arising from this report

16. Crime and Disorder

- 16.1 There are no specific crime and disorder implications arising from this report.

17. Consultation/Engagement

- 17.1 The budget timetable setting out consultation/engagement is attached at Appendix 1.

18. Other Impact of the Proposals

- 18.1 There are no other specific impacts arising from this report. The budget assumptions over the level of grant (levy) provided to Nexus by the Tyne and Wear authorities has a direct impact on the budget setting processes of those authorities.

19. Appendices

- 19.1 Appendix 1 - Budget/Consultation Timetable

20. Background Papers

- 20.1 Tyne and Wear Sub-Committee Policy Seminar held on 15 August 2019.

21. Contact Officers

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Tel: 0191 203 3248

22. Sign off

- The Proper Officer for Transport: ✓

- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer ✓:

23. Glossary

DfT – Department for Transport

MRG – Metro Rail Grant

MTFF – Medium Term Financial Forecast

TWSC – Tyne and Wear Sub Committee

Appendix 1 – Budget Timetable 2020/21 – Joint Transport Committee

Date	Meeting/Event	Action
14 August 2019	Tyne and Wear Sub-Committee (Briefing)	Consider 3 year forward forecasts of budget pressures and issues in relation to Nexus
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12 December 2019	Joint Transport Committee Audit Committee	Consider budget proposals as part of consultation process
19 December 2019	JTC Overview and Scrutiny Committee	Consider (updated) budget proposals as part of consultation process (if necessary)
21 January 2020	North East Joint Transport Committee	Approve Transport Revenue Budget and Transport Levies

Date	Meeting/Event	Action
28 January 2020	NTCA Cabinet Meeting	Formally agree to issue the Transport Levy to constituent NTCA authorities
4 February 2020	NECA Leadership Board	Leadership Board formally issue levy agreed by Joint Transport Committee in January. Formal agreement of non-Transport budgets and contributions.
15 February 2020	Levy letters issued to constituent authorities	Date by which Transport levies must be issued in line with Transport Levying Bodies Regulations

North East Joint Transport Committee

Date: 19 November 2019

Appendix 4

Subject: Budget Proposals

Report of: Chief Finance Officer

Executive Summary

This report provides an update on the initial budget proposals which were considered by the Joint Transport Committee on 23 October 2019 and subsequently by the JTC Overview and Scrutiny Committee on 7 November 2019.

Following feedback from JTC meeting on 23 October 2019 on initial proposals, a range of options are presented in this report for the Tyne and Wear levy.

The draft proposed budget and levy for public passenger transport activity in County Durham is estimated at £15.466m for 2020/21. This compares with a levy for 2019/20 of £15.562m.

The draft proposed budget and levy for public transport activity in Northumberland is estimated at £6.224m for 2020/21. This compares with a levy of £6.104m for 2019/20

Since the last meeting, Nexus has received information from the Pension Actuary that impacts positively on medium-term financial planning forecasts. This and the impact of a range of options for the Tyne and Wear levy are considered in this report.

Proposals for budgets for the Tyne Tunnels and the Transport Strategy Unit have not changed from the position reported on 23 October. The Tyne Tunnels revenue account forecast for 2019/20 is a breakeven position.

The Tyne Tunnel estimates for 2020/21 build in the full year costs of the new Tyne Tunnels Manager and indicate a breakeven position. Provision has been made for one-off costs of the Tyne Pass Project. The draft budget estimates for 2020/21 have been prepared on the basis that increases in the Retail Price Index (RPI) measure of inflation will trigger an increase in the toll for Class 3 vehicles (HGVs).

It is proposed to continue the contribution of £10,000 per authority which is retained from the Durham and Northumberland levies and which funds the work of the Joint Transport Committee, including contributions to the post of the Managing Director, Transport North East and the Transport Strategy Unit.

The contribution from the Tyne and Wear levy to fund central activity is dependent on the final levy position that is agreed. At this stage it is assumed that the contribution remains at 2019/20 levels. This funding is mainly used to meet costs relating to the operation of the former Tyne and Wear Integrated Transport Authority.

It is proposed that funding for the Transport Strategy Unit from the Local Transport Plan Integrated Transport Block grant is maintained at the current level of £500,000 (£62,500 per council and Nexus).

On 7 November 2019 the JTC Overview and Scrutiny Committee considered the estimates outlined in this report. Feedback from the meeting is set out in this report.

Recommendations

The North East Joint Transport Committee is recommended to:

- i. Receive this report for consideration and comment as part of the on-going budget setting process;
- ii. Consider the following budget assumptions/proposals and agree to these forming the basis of further consultation on the 2020/21 Transport Budget:
 - a. That the draft proposed budget and levy for Durham County Council is £15.466m (subject to further ongoing work by DCC);
 - b. That the draft proposed budget and levy for Northumberland County Council is £6.224m (subject to further ongoing work by NCC);
 - c. Consider the options presented in respect of the Tyne and Wear levy and the grant to Nexus, and provide feedback on the preferred option for further consultation;
 - d. That the Tyne Tunnels tolls are proposed to be increased for Class 3 vehicles (HGVs) by £0.10p to keep pace with inflation and the increase in the shadow toll payable to the concessionaire TT2 Ltd., in line with the concession contract and the agreed approach to the funding of the Tyne Tunnels (Note: the decision to increase the Tyne Tunnels tolls will be taken by the Tyne and Wear Sub Committee in January 2020);
- iii. Note the indicative budget forecasts for 2021/22 and 2022/23, as set out in the report;
- iv. Note that the budget proposals will be subject to further consultation including a further meeting of the Joint Transport Committee Overview and Scrutiny Committee and consultation with the Joint Transport Committee Audit Committee, relevant officer groups and the Leadership Board of NECA and the NTCA Cabinet and the North East England Chamber of Commerce;
- v. Note the intention to approve the budget and agree the Transport Levies at the meeting of the JTC on 21 January 2020, after considering any comments received on the proposals and decisions reached by the Tyne and Wear Sub Committee in January 2020.

1. Background Information

- 1.1 The North East Joint Transport Committee receives funding from a variety of sources including the levies on Durham, Northumberland and Tyne and Wear councils. Funding is also received from Tyne Tunnels tolls income, grant funding and interest income. This funding is used to deliver the transport objectives of the Committee through the relevant bodies and as set out in this report.
- 1.2 A report was considered by the JTC on 23 October which included initial budget proposals for 2020/21 and future years. Following feedback from the meeting on the initial proposals, a range of options are presented in this report for the Tyne and Wear levy together with further information that is now available, particularly in relation to the Nexus budget.

2. Proposals

Transport Levies

- 2.1 The main area of income and expenditure in the JTC revenue budget is the Transport levies and the revenue grants paid to Durham County Council, Northumberland County Council and Nexus for the delivery of public transport services.
- 2.2 The JTC area, unlike other Combined Authority areas, includes three county areas with different levels of service provision, cost and different levels of grant funding. The difference in costs across the areas is primarily related to concessionary travel reimbursement (including discretionary concessionary travel), which is higher in the Tyne and Wear area because of high levels of travel on the urban transport network, the Metro and Shields Ferry, and historic public transport borrowing costs. This is reflected in the grants paid to Tyne and Wear authorities within the revenue support grant. It is not therefore possible to have a single transport levy covering the whole JTC area and the levy arrangements established three separate levies through legislation for Durham County Council, one for Northumberland County Council and one for Tyne and Wear.
- 2.3 As the transport levies and revenue grants are fixed for the year there is no change in the levies receivable and grants payable between the original budget and the forecast outturn with minimal change in the retained transport levy budget. Any surplus or deficit against the budgets for the three main delivery agencies is retained or managed within the reserves of that organisation.
- 2.4 A proportion of the levies is retained to support the work of the JTC and to meet historic costs relating to the former Tyne and Wear Integrated Transport Authority (TWITA). This budget is expected to underspend slightly in the current year due to lower than anticipated interest costs on historic Tyne and Wear Transport debt. The forecast underspend will be transferred to the JTC retained reserves at year end.

2.5 **Table 1: 2019/20 Transport Levies and Grants**

	2019/20 Original Budget	2019/20 Forecast Outturn	2019/20 Forecast Variance
	£000	£000	£000
Total Transport Levies	(82,766)	(82,766)	0
Grant to Durham	15,552	15,552	0
Grant to Northumberland	6,094	6,094	0
Grant to Nexus	55,667	55,667	0
Contribution to Metro Fleet Replacement reserve	3,333	3,333	0
Retained Transport Levy budget	2,120	2,091	(29)
Net	-	(29)	(29)
Contribution to/ (from) JTC unearmarked reserves	-	29	29

Durham County Council

2.6 The budget and levy for public passenger transport activity in County Durham is expected to be in the region of £15.466m for 2020/21. This compares with a levy for 2019/20 of £15.562m. The budget and levy for 2019/20 and 2020/21 is summarised in the table below

2.7 **Table 3: Draft Durham Transport Budget and Levy 2020/21**

	2019/20 Original Budget	2019/20 Forecast	2020/21 Proposed Budget
	£000	£000	£000
Concessionary Fares	12,048	12,048	11,932
Subsidised Services	2,583	2,361	2,556
Bus Stations	144	130	177
Bus Shelters	19	37	19
Passenger Transport Information	89	85	88
Staffing	669	669	684
Share of NECA Transport Costs	10	10	10
Net Expenditure / Levy	15,562	15,340	15,466

2.8 For 2019/20 an underspend of £0.222m is forecast, which will be retained by Durham County Council at the year-end. The main reasons for the projected underspend are as follows:

- i) Subsidised Services - £222,000 under budget – this relates mainly procurement efficiencies arising from lower than expected costs of bus services.
- ii) Bus Stations - £14,000 under budget – this is due to lower than expected costs for repairs and maintenance and vandalism.
- iii) Bus Shelters – £18,000 over budget – this is due to increased costs for repairs and maintenance.

iv) Passenger Transport Information - £4,000 under budget – Minor variances

2.9 Durham County Council is in the process of finalising the 2020/21 budget proposals. The initial estimates shown above show that net budgets are proposed to be largely in line with the current year, with no adverse impact on services anticipated next year.

Northumberland County Council

2.10 The proposed budget and levy for public transport activity in Northumberland is £6.224m for 2020/21. This compares with a budget of £6.104m for 2019/20. The budget and levy for 2019/20 and 2020/21 is summarised in the table below:

2.11 **Table 4: Draft Northumberland Transport Budget and Levy 2020/21**

	2019/20 Original Budget	2019/20 Forecast	2020/21 Proposed Budget
	£000	£000	£000
Concessionary Fares	4,690	4,621	4,811
Subsidised Services	1,230	1,150	1,230
Bus Stations	24	24	25
Passenger Transport Information	25	25	25
Staffing	125	125	133
Share of NECA Transport Costs	10	0	10
Net Expenditure / Levy	6,104	6,151	6,234

2.12 The main areas of expenditure are:

- i) Concessionary Fares – Based on performance to date, the budget is forecast to underspend by £69,000 in 2019/20. The patronage for the service has declined by approximately 1.5% per annum which is offset by increased ticket income.
- ii) Subsidised Bus Services – The Council supports a range of socially necessary bus services, mainly in the rural North and West areas of the County but also some in the more urban South East. It is forecast that the outturn position will show an underspend of £80,000 at the end of the current financial year.

2.13 Northumberland County Council is finalising the 2020/21 budget proposals. The estimates set out a small increase related to increased ticket prices and reimbursement to operators for concessionary travel.

Tyne and Wear

2.14 The JTC meeting on the 23 October requested further modelling of Tyne and Wear levy options and the impact of different scenarios on the Nexus medium term financial plan position.

2.15 The distribution of the levy within Tyne and Wear is based on population, in accordance with the Transport Levying Bodies Regulations 1992. The amounts levied on each individual authority need to be adjusted to reflect the mid-year population estimate for 2018. Increases in the share of the population for Newcastle and North Tyneside mean that the share of the levy for these authorities will increase in 2020/21, while there will be compensating small decreases for Gateshead, South Tyneside and Sunderland in 2020/21.

2.16 The following options for the Tyne and Wear levy have been modelled:

- a) A 2% increase in all three years 2020/21-2022/23
- b) A 2% increase in 2020/21 with a cash freeze thereafter
- c) A 1% increase in 2020/21 with a cash freeze thereafter
- d) A cash freeze in all three years
- e) A 1% reduction in 2020/21 and a cash freeze thereafter
- f) A 2% reduction in 2020/21 and a cash freeze thereafter

2.17 A 1% increase or decrease in the levy equates to £611,000. Detailed tables setting out the impact of each proposal on the Tyne and Wear councils are shown in Appendix 1, with a summary of the total impact shown in the table below:

2.18 **Table 5: Options for Tyne and Wear Levy 2020/21-2022/23**

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
a) 2% increase in all 3 years	61,100	62,322	63,568	64,840
Year on Year Increase / (Decrease)		1,222	1,246	1,272
Cumulative Increase / (Decrease)		1,222	2,468	3,740
b) 2% increase in 2020/21 and cash freeze thereafter	61,100	62,322	62,322	62,322
Year on Year Increase / (Decrease)		1,222	0	0
Cumulative Increase / (Decrease)		1,222	1,222	1,222
c) 1% increase in 2020/21 and cash freeze thereafter	61,100	61,711	61,711	61,711
Year on Year Increase / (Decrease)		611	0	0
Cumulative Increase / (Decrease)		611	611	611
d) Cash freeze in all three years	61,100	61,100	61,100	61,100
Year on Year Increase / (Decrease)		0	0	0
Cumulative Increase / (Decrease)		0	0	0
e) 1% reduction in 2020/21 and cash freeze thereafter	61,100	60,489	60,489	60,489
Year on Year Increase / (Decrease)		(611)	0	0
Cumulative Increase / (Decrease)		(611)	(611)	(611)

f) 2% reduction in 2020/21 and cash freeze thereafter	61,100	59,878	59,878	59,878
Year on Year Increase / (Decrease)		(1,222)	0	0
Cumulative Increase / (Decrease)		(1,222)	(1,222)	(1,222)

Nexus

- 2.19 The majority of the Tyne and Wear levy is paid as a revenue grant to Nexus for the delivery of public transport services. An update on the 2019/20 revenue budget position was provided in the JTC report on 23 October 2019.
- 2.20 At the JTC meeting on 23 October 2019, Nexus' medium-term financial forecasts was discussed. This showed the following deficits across the years 2019/20 to 2022/23, assuming a freeze in the grant Nexus receives from the JTC via the Tyne and Wear levy, together with planned use of reserves. This position assumed the existing pension contributions were maintained in the next valuation from 2020/21 and assumed continuation of the current service provision, factoring in pressures arising from pay and price inflation, the Metro fare box and the Metro Fleet replacement programme.

Table 6: Summary of Nexus medium term financial forecast at 23 October 2019

Position presented to JTC: 23/10/19	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	2.40	6.00	5.80		
Movement in reserves		(4.40)	(2.40)	(3.00)	(2.90)		
Deficit/(Surplus) after use of reserves		0.00	0.00	3.00	2.90		
Gap		0.00	0.00	(3.00)	(2.90)	(5.90)	
Remaining reserves	16.00	11.60	9.20	6.20	3.30		21%

- 2.21 Nexus' gross budget in the current year is £170m, funded as follows:
- 31% by government grant;
 - 36% from commercial revenues; and
 - 33% from the Tyne and Wear levy

2.22 The levy funds the following services:

- Statutory Concessionary Fares (62% of the levy)
Legal reimbursement to bus operators for the 'free bus pass' – the English National Concessionary Travel Scheme (ENCTS). Nexus has no control over the prices of, or demand for this service and with eligibility age now settling at 66 years, there is likely to be greater pressure on this budget during the next decade
- Metro (2.5% of the levy)
The Metro gross budget in the current year is £103million with 1.5% of this being funded from the levy
- Other Services (35.5% of the levy)
Secured buses, discretionary concessions, the ferry, bus infrastructure, provision of public Transport information etc.

2.23 Metro revenue has grown by 12% over the past 5 years, meaning that reliance on the grant from the levy for Metro services has been reduced whilst the levy funds a higher proportion of the other services that are provided by Nexus.

2.24 The 2019 pension valuation results for Nexus were received after the JTC meeting on 23 October 2019 and there is a forecast financial benefit compared to the position reported to the JTC on 23 October. The Nexus' pension fund position has improved and can be used to reduce its employer's future service contribution rate.

2.25 The maximum saving from the valuation is estimated at £3.4m per annum, assuming the surplus is amortised. This improves the Medium-Term Financial Plan (MTFP) forecasts presented to the JTC on 23 October 2019 as set out in the revised MTFP table below. This table uses the same assumptions as set out in paragraph 2.20 (and as reported to the JTC at the last meeting i.e. a cash freeze in the levy) but updated to show the estimated impact of the improved pension valuation position:

2.26 ***Table 7: Updated Nexus medium term financial forecast November 2019***

Position presented to JTC: 23/10/19 (Updated to show impact of Pension Saving)	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	(1.00)	2.60	5.40		
Movement in reserves		(4.40)	1.00	(2.60)	(2.70)		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	2.70		
Gap		0.00	0.00	0.00	(2.70)	(2.70)	
Remaining reserves	16.00	11.60	12.60	9.99	7.29		46%

2.27 Under a scenario of a cash freeze in the levy in 2020/21 and factoring in the impact of the updated pension fund forecasts, there is now a £1m surplus forecast in 2020/21, though there remains significant budget shortfalls in 2021/22 (£2.6m) and 2022/23 (£5.4m) which will need to be addressed. The table above factors in some prudent assumptions around utilising reserves to offset these pressures in the short term. This is not a sustainable position and spending will need to reduce and/or income increased by circa £5.4m to ensure a balanced budget beyond this medium term financial planning period. More detailed modelling of various scenarios and the impact on these forecasts is included in Appendix 2 to this report. The different scenarios are set out below:

- Increasing the levy by 2% across all three years, 2020/21 to 2022/23 (a);
- Increasing the levy by 2% and 1% in 2020/21 only, with a freeze thereafter (b);
- Freezing the levy across all three years (c);
- Reducing the by 1% and 2% in 2020/21 only, with a freeze thereafter (d);
- In all scenarios, introducing a 9.3% pension contribution rate, together with how taking a 'stepped' approach to the rate (in order to mitigate the risk of a significant increase at the 2022 valuation)¹;
- In all scenarios no reductions in services.

2.28 The following table summarises the modelling set out in Appendix 2:

¹ The rate has been adjusted from 9.3% in 2020/21 to 10.4% in 2021/22 to 11.6% in 2022/23

Table 8: Summary of Nexus levy grant options modelling

Scenario	Deficit by 2022/23 £m	Reserves at 31/03/23
Levy increased by 2% in all 3 Years / 9.3% Pension	1.86	11.67
Levy +2% / 9.3% Pension	4.22	10.24
Levy +2% / Stepped Pension	5.16	9.31
Levy +1% / 9.3% Pension	4.81	8.77
Levy +1% / Stepped Pension	5.75	7.83
Levy Freeze / 9.3% Pension	5.40	7.29
Levy Freeze / Stepped Pension	6.34	6.36
Levy -1% / 9.3% Pension	5.99	5.82
Levy -1% / Stepped Pension	6.93	4.88
Levy -2% / 9.3% Pension	6.58	4.34
Levy -2% / Stepped Pension	7.52	3.41

- 2.30 As an illustration, to eradicate the estimated deficit purely through the Tyne and Wear levy would require a levy increase of around 5% in both 2021/22 and 2022/23 assuming a levy freeze in 2020/21.

Metro Futures Studies

- 2.29 At a previous JTC briefing, members considered proposals for progressing a series of studies that are necessary for Metro and local rail network expansion plans. These studies were considered essential to progressing the Metro and Local Rail Strategy (MLRS), adopted in 2016. The estimated cost required for the work was set out as £2.4m, which could be completed over an accelerated 12 to 18 month timetable if additional funding was identified over and above the existing budget provision within the Nexus revenue budget (circa £500,000)..
- 2.30 If there was a cash freeze in the 2020/21 Tyne and Wear levy, Nexus forecast a surplus of approximately £1m. Should this position ultimately be agreed, this surplus could be used to provide a total of circa £1.5m in 2020/21 to progress the work, with the studies completed the following year, funded from the 2021/22 Nexus budget or from Nexus reserves.

Tyne Tunnels

- 2.31 The Tyne Tunnels are fully funded from tolls paid by tunnel users. No government funding was made available for the construction of the second Tyne Tunnel (which opened in 2011) and the refurbishment of the first tunnel which was completed in the same year. The works were funded by a combination of public sector and private sector borrowing, through a Public Private Partnership contract with a private sector concessionaire who designed and built the new tunnel and operate the tunnels under a contract which runs until 2037. The public sector borrowing was taken out by the then Tyne and Wear Integrated Transport Authority and is to be repaid over a 50-year period. The total current balance of borrowing associated with the Tyne Tunnels is £126.823m.
- 2.32 Contract payments to TT2 are calculated with reference to the traffic using the

tunnels and increase with RPI inflation. As a result, actual tolls levied on users are required to increase to keep pace with increases in the contract payments, so the toll is maintained in real terms over the life of the contract. Under the River Tyne (Tunnels) (Modification) Order 2011, tolls can be increased in increments of 10p. Toll increases to date have been in line with expectations presented at the development stage of the New Tyne Crossing project.

2.33 As reported to the JTC on 23 October, the forecast outturn for 2019/20 is for a small surplus of around £52,000 which is mainly as a result of additional interest income on balances held by the JTC. Traffic levels have been largely in line with forecasts, slightly higher than in 2018/19 but traffic flow levels remain less than the levels experienced in 2016/17 prior to the commencement of Highways England works at Silverlink in North Tyneside. The forecasts include the costs of the new Tyne Tunnel Manager.

2.34 The tables below provide a summary of the forecast for 2019/20 and the indicative budget for 2020/21 and future years

Table 9: Tyne Tunnels Budget 2019/20 and 2020/21 and initial forecasts to 2022/23

	2019/20 Original Budget	2019/20 Forecast	2020/21 Proposed Budget	2021/22 Estimate	2022/23 Estimate
	£000	£000	£000	£000	£000
Tolls Income	(28,090)	(28,141)	(28,422)	(28,919)	(29,642)
TT2 Contract	21,197	21,221	21,633	22,505	22,942
Employees	-	16	62	63	65
Pensions	52	52	53	55	56
Support Services	95	145	100	102	104
Supplies & Services	45	35	46	47	48
Financing Charges	6,966	6,988	6,756	6,416	6,673
Interest /Other Income	(50)	(128)	(50)	(50)	(50)
Repayment from TWITA for temporary use of reserves	(240)	(240)	(240)	(240)	(240)
(Surplus) /Deficit on Tyne Tunnels revenue account	(25)	(52)	(61)	(22)	(45)

2.35 A new post of Tyne Tunnels Contract Manager was approved by the JTC in September. This role will manage the client-side aspects of the Tyne Tunnel

Project Agreement with TT2 and act as the principal point of liaison with the Concessionaire so that contractual matters are dealt with in a timely and efficient manner. The part-year costs of the post are built into the revised forecast for 2019/20 and the full year costs from 2020/21 onwards, which is the reason for the variance in Employee costs in the 2019/20 forecast. Once this post is filled and handover has been completed there will be a reduction in the budget for support services, as support has previously been provided by the NECA Chief Finance Officer and Monitoring Officer and individuals at Newcastle City Council.

- 2.36 As previously reported to the Tyne and Wear Sub Committee, TT2 have brought forward proposals to introduce a Tyne Pass process using Automatic Number Plate Recognition as a pre-cursor to a longer term aim of having a free flow system in place in the future where there would be no toll booths on the plazas.
- 2.37 These proposals would require changes to the Tyne Tunnels Byelaws, the Project Agreement and financial model for the contract. A temporary increase in the support services budget for the Tyne Tunnels is therefore proposed for the 2019/20, 2020/21 and 2021/22 financial years to meet the additional costs from the client side of implementing the project, such as external professional advice. This can be met from within the Tyne Tunnels budget and will be kept under review as the project progresses.
- 2.38 The 2020/21 tolls income estimate assumes an increase in tolls to £3.90 for Class 3 vehicles in line with inflation as measured by the Retail Price Index (RPI) – a year on year increase of £0.10 (2.6%). It is not anticipated that an increase in the tolls for Class 2 vehicles will have been triggered by the increase in RPI until the 2021/22 financial year, as increases can only be applied in 10p increments. These charges are therefore likely to remain at £1.80 in 2020/21.
- 2.39 In terms of the formal process for the increase in Tolls, if the level of RPI has reached the point at which an increase is possible, a decision to increase tolls will be taken by the Tyne and Wear Sub Committee in January 2020. If a decision to increase the tolls is taken, officers from NECA as the Accountable Body for the JTC will follow the process set out in the Tyne Tunnels Order 2005 to implement the decision of the committee. This will involve advertising the proposed increase in at least one local newspaper and notifying the Department for Transport. Once notified, the Department has 21 days to determine whether to take the order and, if so, the order will be made 28 days before it comes into effect. A decision on the specific date for implementation will be taken in conjunction with TT2, taking into account operational considerations. The increase, if implemented, would come into effect after May 2020 and will be discussed in greater detail with the Tyne and Wear Sub Committee.
- 2.40 Reserves are held to manage risks associated with ownership of the tunnels, to meet any in-year deficits which may arise on the tunnels revenue account and to deal with any changes which may arise from changes in accounting treatments in future years. The forecast position against the Tyne Tunnels reserves is set out in the table below:
- 2.41 ***Table 10: Tyne Tunnels Reserves 2020/21 Forecast***

	2019/20 Original	2019/20 Forecast	2020/21 Original
	£000	£000	£000
Tyne Tunnels Reserves b/f	(18,452)	(21,150)	(17,961)
(Surplus)/Deficit on Tyne Tunnels revenue account met from reserves	(25)	(52)	(61)
Capital Expenditure funded from Reserves	260	854	-
NESTI Expenditure funded from Reserves	300	342	305
Repayment of LGF funding swap	-	2,045	-
Tyne Tunnels Reserves c/f	(17,917)	(17,961)	(17,717)

Transport Strategy Unit

- 2.42 The Transport Strategy Unit (TSU) (previously referred to as the Regional Transport Team) supports the Joint Transport Committee, providing relevant information to support policy choices and to deliver policies at a regional level. The TSU's activities include developing and maintaining:
- The Transport vision and plan;
 - The funding plan and bids for external funding;
 - Input into the LEP's strategies and plans on transport, and local business organisations;
 - A project pipeline and assurance framework;
 - Responses to transport consultations and policy-making opportunities by government and other external agencies;
 - Input into Transport for the North (TfN)'s pan-Northern policies and plans; and
 - Relationships with other authorities (whether local, combined, national or sub-national) with whom the Joint Transport Committee may share a common interest.
- 2.43 During 2018/19 and 2019/20 the capacity of the TSU has been temporarily enhanced through secondments and fixed term contracts to prepare the bid against Transforming Cities Fund Tranche 2. This work will be complete before the end of the current financial year. The 2020/21 draft budgets have not made any assumptions on funding to be received from the Transforming Cities Fund Tranche 2 bid due to be submitted at the end of November 2019 (which is considered in a report elsewhere on this agenda). Should the bid be successful, costs of programme management have been built into the bid and the budget for 2020/21 and future years will be updated accordingly.
- 2.44 In addition to the significant current activity of developing the Transport Plan and related delivery programmes, some other major upcoming policy developments could potentially include the development of a new bus strategy, the expansion of the Metro and local rail network, developing a model for rail devolution, and growing the programme to increase the uptake of walking and cycling. Further work is required in considering the scope of these developments, with funding packages

to be agreed once requirements are clearer. There are also significant funding opportunities for well-developed bids along with a need for strong delivery programme management.

2.45 The TSU is funded through contributions from the Transport Levies which are retained to support JTC activity, a top-slice of the Local Transport Plan Integrated Transport Block grant which is awarded to the JTC and external contributions to some specific posts.

2.46 A summary of the forecast position for 2019/20 including the TCF bid resources (which was agreed after the original budget was set in January 2019) and the initial proposed budget for 2020/21 is set out in the table below. The budget for 2020/21 and future years will be updated once the updated Transport Plan is agreed which will set clear priorities for the work of the TSU.

2.47 **Table 11: Transport North East Strategy Unit Budget**

	2019/20 Original Budget	2019/20 Forecast Outturn	2019/20 Forecast Variance	2020/21 Initial Estimates
	£	£	£	£
Gross Expenditure				
Managing Director Transport North East and Transport Strategy Unit	658,405	584,251	(74,154)	678,369
Transport Plan	50,000	70,000	20,000	50,000
Transport Strategy Unit: Research and Development	180,000	183,044	3,044	135,000
Transport Strategy Unit: Travel and Miscellaneous	6,000	14,800	8,800	16,000
Transport Strategy Unit: Contingency	0	0	0	15,000
Transport Strategy Unit: IT/Equipment/Accomm	0	20,000	20,000	20,000
Salaries and secondment costs – Transforming Cities	241,856	233,847	(8,009)	0
Consultancy and other costs of bid preparation – Transforming Cities	191,218	191,218	0	0
Total Expenditure	1,327,479	1,297,159	(30,319)	914,369
Gross Income				
LTP funding - TSU	(500,000)	(500,000)	0	(500,000)
LGF funding - TSU	(100,000)	(100,000)	0	(100,000)
LGF funding - TCF	(100,000)	(100,000)	0	0
LTP/Levy funding - TCF	(233,074)	(233,074)	0	0
Retained Transport Levy	(31,870)	(47,671)	(15,801)	(128,773)
External funding for specific	(139,102)	(149,598)	(10,598)	(129,023)

posts				
Total Income	(1,104,046)	(1,130,343)	(26,297)	(857,756)
Net	223,433	166,816	(56,617)	56,353
Use of Reserves to Fund Net Expenditure				
Transport Strategy Unit Reserves	(123,433)	0	123,433	(6,573)
Go Smarter legacy funds – Transforming Cities Fund	(100,000)	(100,000)	-	0
Go Smarter legacy funds - Other	0	(30,044)	(30,044)	(50,000)
Earmarked reserves – Transforming Cities Fund	0	(36,772)	(36,772)	0

- 2.48 The forecast outturn for salaries is significantly less than the original budget due to a number of vacancies in the team which have not yet been filled. These vacancies have offset a cost pressure for pension contributions which has arisen because the budget assumed that employees would all have transferred to the employment of NECA and associated pension savings would have been made. This transfer is unlikely to take place before 1 January 2020. By the end of October 2019, unbudgeted pension costs of £38,006 had been incurred.
- 2.49 An increase in forecast costs in relation to the Transport Plan is reflected in the 2019/20 outturn as a result of additional work on the Plan requested by the Joint Transport Committee. Following the last meeting of the Committee, the budget for 2020/21 has been increased by £35,000 to reflect the importance members place on this area of work. Go Smarter legacy funds will be used to fund these additional costs. The total budget for the Transport Plan is £120,000, the majority of which (£70,000) is forecast to be required this financial year. The balance of £50,000 is contained in the 2020/21 budget.
- 2.50 The original budget for the year contained a significant use of the general reserve which was built up through underspends on the budget in previous years. This is now not forecast to be required in 2019/20 due to anticipated in year savings - particularly in relation to salaries and through the identification of alternative resources to fund activity.
- 2.51 An earmarked reserve to part-fund the TCF bid work was established at the end of the 2018/19 financial year to ringfence an underspend in the contribution from the Transport levy and which was not included in the original budget.
- 2.52 The JTC holds reserves to fund future activity and to manage financial risk associated with its activities. A summary of the reserves forecast at 31 March 2020 is shown in the table below

Table 12: Summary of JTC Reserves 2019/20

	Actual 1 April 2019	Forecast 31 March 2020
	£000	£000
Tyne and Wear Transport	(630)	(659)
Tyne Tunnels	(21,150)	(17,961)
Metro Reinvigoration	(9,167)	(9,233)
Metro Fleet Renewal	(6,694)	(1,487)
TCF support	(37)	0
Go Smarter Legacy (within Grants unapplied)	(194)	(64)
Transport Strategy Unit (within Grants unapplied)	(125)	(125)
Total JTC Reserves	(37,997)	(29,529)

JTC Overview and Scrutiny Committee 7 November 2019

- 2.53 The JTC Overview and Scrutiny Committee met on 7 November, 2019 to consider the draft budget proposals. Members considered the reports presented to the JTC on 23 October along with the updated information around options for the Tyne and Wear levy and the updated Nexus position as set out in Appendices 1 and 2. Members were appreciative of the information provided which they felt gave them a better understanding of the Transport budgets and the proposals under consideration.
- 2.54 There were two main issues which the Overview and Scrutiny Committee wished the JTC to be mindful of in their consideration of the proposals for 2020/21 and future years' budgets:
- Whether there are opportunities for Invest to Save proposals, particularly to tackle fare evasion on Metro which would help maximise fare income;
 - Members were keen to ensure climate change and air quality issues were taken into account when setting budgets and in particular the importance of public transport in tackling these issues. The JTC wished the Committee to consider these issues when setting budgets and agreeing levies, particularly if there were any proposals to reduce services in the future.

3. Reasons for the Proposals

- 3.1 The proposals are presented here to update the JTC on the work on the preparation of the 2020/21 Transport Budget and continue the consultation process. The report provides updated forecasts based on the latest information available, scenario modelling in terms of the Tyne and Wear Levy and feedback from the JTC Overview and Scrutiny Committee.

4. Alternative Options Available

- 4.1 Option 1 – The North East Joint Transport Committee may accept the

recommendation set out in the report.

Option 2 – The North East Joint Transport Committee may suggest amendments or alternative proposals be considered.

5. Next Steps and Timetable for Implementation

5.1 Proposals are at a draft stage and still subject to consultation. Taking into account the results of consultation, firm recommendations will be presented to the JTC for formal agreement in January 2020. .

6. Potential Impact on Objectives

6.1 The budget presented in this report are aligned to the achievement of the Transport policy objectives of the Authority.

7. Financial and Other Resources Implications

7.1 The financial and other resource implications are summarised in detail in the body of the report where they are known. Further details which are developed as part of the budget development and consultation process will be identified in reports to the January 2020 meeting of the Committee.

8. Legal Implications

8.1 The JTC must ultimately approve the transport budget and levies unanimously.

9. Key Risks

9.1 Appropriate risk management arrangements are put in place in each budget area by the delivery agencies responsible. Reserves are maintained to help manage financial risk to the authority.

10. Equality and Diversity

10.1 There are no equality and diversity implications arising from this report.

11. Crime and Disorder

11.1 There are no crime and disorder implications arising from this report.

12. Consultation/Engagement

12.1 The NECA Constitution (in its role as accountable body for the JTC) requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed.

12.2 The extent of public consultation will be proportionate to the impact that the proposals would have on services to the public. At this stage no significant service reductions or implications are expected in 2020/21, however, if the Tyne and Wear levies are frozen again in 2021/22 or reduced this will provide a challenge to Nexus. Proposals will be published on the website for comment and

included in any budget consultation undertaken by constituent authorities.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 Appendix 1 - Tyne and Wear Levy Options 2020/21-2022/23
Appendix 2 – Modelled impacts on Nexus MTFP Forecasts 2020/21-2022/23

15. Background Papers

15.1 JTC Budget 2019/20 report 22 January 2019
JTC Initial Budget Proposals 2020/21 report 23 October 2019

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager,
Eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign off

- The Proper Officer for Transport: ✓
- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

18. Glossary

DfT – Department for Transport
NECA – North East Combined Authority
NTCA – North of Tyne Combined Authority
TfN – Transport for the North
TSU – Transport Strategy Unit
TT2 – TT2 Ltd., Tyne Tunnels concessionaire

Appendix 1 - Tyne and Wear Levy Options 2020/21-2022/23

1. At the Joint Transport Committee on 23 October 2019, members requested some additional information about the impact of various options for the levy on the Tyne and Wear councils. The following scenarios have been modelled and are set out in the tables below:
 - a) A 2% increase in all three years 2020/21-2022/23
 - b) A 2% increase in 2020/21 with a cash freeze thereafter
 - c) A 1% increase in 2020/21 with a cash freeze thereafter
 - d) A cash freeze in all three years
 - e) A 1% reduction in 2020/21 and a cash freeze thereafter
 - f) A 2% reduction in 2020/21 and a cash freeze thereafter
2. Apportionment of the levy is based upon the 2018 ONS Mid-Year population estimates in 2020/21, as per the Transport Levying Bodies Regulations.
3. Since the populations in each council area change each year, the apportionment of the levy must be updated each year so there will be changes to the amounts payable by each individual council even in a cash freeze scenario.
4. For 2021/22 and 2022/23 the population figures are not yet available so the apportionment for these years is as per the 2018 Mid-Year figures.
5. The Retained Levy relates primarily to former Tyne and Wear Integrated Transport Authority (TWITA) costs (mainly historic financing charges) and contributions towards supporting the JTC including the Transport Strategy Unit (TSU). Any increase or decrease in the Retained Levy amount will be managed through the Tyne and Wear Transport reserve.

Modelling of Options

a) A 2% increase in all three years 2020/21-2022/23

	2019/20 Levy (£)	2018 Population	2020/21 Levy (£)	2021/22 Levy (£)	2022/23 Levy (£)
Gateshead	10,949,433	202,508	11,106,147	11,328,270	11,554,836
Newcastle	16,002,955	300,196	16,463,651	16,792,924	17,128,782
North Tyneside	11,060,540	205,985	11,296,836	11,522,773	11,753,229
South Tyneside	8,089,866	150,265	8,240,984	8,405,804	8,573,920
Sunderland	14,997,206	277,417	15,214,382	15,518,669	15,829,043
Tyne & Wear Total	61,100,000	1,136,371	62,322,000	63,568,440	64,839,810
Year on Year Increase / (Decrease)			1,222,000	1,246,440	1,271,370
Cumulative Increase / (Decrease)			1,222,000	2,468,440	3,739,810

Retained Levy	2,100,000		2,142,000	2,184,840	2,228,540
Grant to Nexus	59,000,000		60,180,000	61,383,600	62,611,270

b) A 2% increase in 2020/21 only and a cash freeze thereafter

	2019/20 Levy (£)	2018 Population	2020/21 Levy (£)	2021/22 Levy (£)	2022/23 Levy (£)
Gateshead	10,949,433	202,508	11,106,147	11,106,147	11,106,147
Newcastle	16,002,955	300,196	16,463,651	16,463,651	16,463,651
North Tyneside	11,060,540	205,985	11,296,836	11,296,836	11,296,836
South Tyneside	8,089,866	150,265	8,240,984	8,240,984	8,240,984
Sunderland	14,997,206	277,417	15,214,382	15,214,382	15,214,382
Tyne & Wear Total	61,100,000	1,136,371	62,322,000	62,322,000	62,322,000
Year on Year Increase / (Decrease)			1,222,000	0	0
Cumulative Increase / (Decrease)			1,222,000	1,222,000	1,222,000

Retained Levy	2,100,000		2,142,000	2,142,000	2,142,000
Grant to Nexus	59,000,000		60,180,000	60,180,000	60,180,000

c) A 1% increase in 2020/21 only and a cash freeze thereafter

	2019/20 Levy (£)	2018 Population	2020/21 Levy (£)	2021/22 Levy (£)	2022/23 Levy (£)
Gateshead	10,949,433	202,508	10,997,263	10,997,263	10,997,263
Newcastle	16,002,955	300,196	16,302,242	16,302,242	16,302,242
North Tyneside	11,060,540	205,985	11,186,083	11,186,083	11,186,083
South Tyneside	8,089,866	150,265	8,160,190	8,160,190	8,160,190
Sunderland	14,997,206	277,417	15,065,221	15,065,221	15,065,221
Tyne & Wear Total	61,100,000	1,136,371	61,711,000	61,711,000	61,711,000
Year on Year Increase / (Decrease)			611,000	0	0
Cumulative Increase / (Decrease)			611,000	611,000	611,000

Retained Levy	2,100,000
Grant to Nexus	59,000,000

2,121,000	2,121,000	2,121,000
59,590,000	59,590,000	59,590,000

d) A cash freeze in all three years

	2019/20 Levy (£)	2018 Population	2020/21 Levy (£)	2021/22 Levy (£)	2022/23 Levy (£)
Gateshead	10,949,433	202,508	10,888,380	10,888,380	10,888,380
Newcastle	16,002,955	300,196	16,140,834	16,140,834	16,140,834
North Tyneside	11,060,540	205,985	11,075,330	11,075,330	11,075,330
South Tyneside	8,089,866	150,265	8,079,396	8,079,396	8,079,396
Sunderland	14,997,206	277,417	14,916,061	14,916,061	14,916,061
Tyne & Wear Total	61,100,000	1,136,371	61,100,000	61,100,000	61,100,000
Year on Year Increase / (Decrease)			0	0	0
Cumulative Increase / (Decrease)			0	0	0

Retained Levy	2,100,000
Grant to Nexus	59,000,000

2,100,000	2,100,000	2,100,000
59,000,000	59,000,000	59,000,000

e) A 1% reduction in 2020/21 and a cash freeze thereafter

	2019/20 Levy (£)	2018 Population	2020/21 Levy (£)	2021/22 Levy (£)	2022/23 Levy (£)
Gateshead	10,949,433	202,508	10,779,496	10,779,496	10,779,496
Newcastle	16,002,955	300,196	15,979,426	15,979,426	15,979,426
North Tyneside	11,060,540	205,985	10,964,576	10,964,576	10,964,576
South Tyneside	8,089,866	150,265	7,998,602	7,998,602	7,998,602
Sunderland	14,997,206	277,417	14,766,900	14,766,900	14,766,900
Tyne & Wear Total	61,100,000	1,136,371	60,489,000	60,489,000	60,489,000
Year on Year Increase / (Decrease)			(611,000)	0	0
Cumulative Increase / (Decrease)			(611,000)	(611,000)	(611,000)

Retained Levy	2,100,000
Grant to Nexus	59,000,000

2,079,000	2,079,000	2,079,000
58,410,000	58,410,000	58,410,000

f) A 2% reduction in 2020/21 and a cash freeze thereafter

	2019/20 Levy (£)	2018 Population	2020/21 Levy (£)	2021/22 Levy (£)	2022/23 Levy (£)
Gateshead	10,949,433	202,508	10,670,612	10,670,612	10,670,612
Newcastle	16,002,955	300,196	15,818,017	15,818,017	15,818,017
North Tyneside	11,060,540	205,985	10,853,823	10,853,823	10,853,823
South Tyneside	8,089,866	150,265	7,917,808	7,917,808	7,917,808
Sunderland	14,997,206	277,417	14,617,739	14,617,739	14,617,739
Tyne & Wear Total	61,100,000	1,136,371	59,878,000	59,878,000	59,878,000
Year on Year Increase / (Decrease)			(1,222,000)	0	0
Cumulative Increase / (Decrease)			(1,222,000)	(1,222,000)	(1,222,000)

Retained Levy	2,100,000
Grant to Nexus	59,000,000

2,058,000	2,058,000	2,058,000
57,820,000	57,820,000	57,820,000

Appendix 2 – Nexus MTFP Forecasts – Updated November 2019

a) Levy increase of 2% across all 3 years

Scenario: Levy +2% (all 3 years) / 9.3% Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-2.18	0.24	1.86		
Movement in reserves		-4.40	2.18	-0.24	-0.93		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	0.93		
Savings required		0.00	0.00	0.00	-0.93	-0.93	
Remaining reserves	16.0	11.60	13.78	13.53	12.60		79%

Scenario: Levy +2% (all 3 years) / Stepped Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-2.18	0.71	2.80		
Movement in reserves		-4.40	2.18	-0.71	-1.40		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	1.40		
Savings required		0.00	0.00	0.00	-1.40	-1.40	
Remaining reserves	16.0	11.60	13.78	13.07	11.67		73%

b) Levy increase of 1% and 2% in 2020/21

Scenario: Levy +2% / 9.3% Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-2.18	1.42	4.22		
Movement in reserves		-4.40	2.18	-1.42	-2.11		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	2.11		
Savings required		0.00	0.00	0.00	-2.11	-2.11	
Remaining reserves	16.0	11.60	13.78	12.35	10.24		64%

Scenario: Levy +2% / Stepped	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-2.18	1.89	5.16		
Movement in reserves		-4.40	2.18	-1.89	-2.58		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	2.58		
Savings required		0.00	0.00	0.00	-2.58	-2.58	
Remaining reserves	16.0	11.60	13.78	11.89	9.31		58%

Scenario: Levy +1% / 9.3% Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-1.59	2.01	4.81		
Movement in reserves		-4.40	1.59	-2.01	-2.41		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	2.41		
Savings required		0.00	0.00	0.00	-2.41	-2.41	
Remaining reserves	16.0	11.60	13.19	11.17	8.77		55%

Scenario: Levy +1% / Stepped	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-1.59	2.48	5.75		
Movement in reserves		-4.40	1.59	-2.48	-2.87		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	2.87		
Savings required		0.00	0.00	0.00	-2.87	-2.87	
Remaining reserves	16.0	11.60	13.19	10.71	7.83		49%

c) Levy freeze in 2020/21

Scenario: Levy Freeze / 9.3% Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-1.00	2.60	5.40		
Movement in reserves		-4.40	1.00	-2.60	-2.70		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	2.70		
Savings required		0.00	0.00	0.00	-2.70	-2.70	
Remaining reserves	16.00	11.60	12.60	9.99	7.29		46%

Scenario: Levy Freeze / Stepped Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-1.00	3.07	6.34		
Movement in reserves		-4.40	1.00	-3.07	-3.17		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	3.17		
Savings required		0.00	0.00	0.00	-3.17	-3.17	
Remaining reserves	16.00	11.60	12.60	9.53	6.36		40%

d) Levy reduction of 1% and 2% in 2020/21

Scenario: Levy -1.0% / 9.3% Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-0.41	3.19	5.99		
Movement in reserves		-4.40	0.41	-3.19	-3.00		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	3.00		
Savings required		0.00	0.00	0.00	-3.00	-3.00	
Remaining reserves	16.00	11.60	12.01	8.81	5.82		36%

Scenario: Levy -1.0% / Stepped Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	-0.41	3.66	6.93		
Movement in reserves		-4.40	0.41	-3.66	-3.46		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	3.46		
Savings required		0.00	0.00	0.00	-3.46	-3.46	
Remaining reserves	16.00	11.60	12.01	8.35	4.88		31%

Scenario: Levy -2.0% / 9.3% Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	0.18	3.78	6.58		
Movement in reserves		-4.40	-0.18	-3.78	-3.29		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	3.29		
Savings required		0.00	0.00	0.00	-3.29	-3.29	
Remaining reserves	16.00	11.60	11.42	7.63	4.34		27%

Scenario: Levy -2.0% / Stepped Pension	Reserves as at 31/03/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total Savings £m	Reserves as at 31/03/23 %
Deficit/(Surplus)		4.40	0.18	4.25	7.52		
Movement in reserves		-4.40	-0.18	-4.25	-3.76		
Deficit/(Surplus) after use of reserves		0.00	0.00	0.00	3.76		
Savings required		0.00	0.00	0.00	-3.76	-3.76	
Remaining reserves	16.00	11.60	11.42	9.29	3.41		21%

North East Combined Authority Audit and Standards Committee

Date: 10 December 2019

Agenda Item 7

Subject: North East Combined Authority Strategic Risk Register

Report Of: Senior Manager – Assurance, Sunderland City Council

Executive Summary

The purpose of this report is to provide members with an up to date assessment of the strategic risks the North East Combined Authority (NECA) faces as it seeks to achieve its objectives.

The NECA Strategic Risk Register contains seven risks which were previously reported to the NECA Audit and Standards Committee during September 2019.

Six of the strategic risks have remained stable with no changes reported since the previous update to the Committee in September 2019. The exception relates to the risk that sources and levels of funding available to NECA may not be aligned to the strategic economic objectives of NECA. The risk score has increased from 8 to 12 moving the risk level from 'amber' to 'red'.

The reason for the change in risk level is due to the continued uncertainty around possible future changes in UK government policy which may impact on the nature and level of future capital funding streams. While NECA is taking action to mitigate the risk, the source of the risk is external to the organisation and as such is beyond its control.

The North East Local Enterprise Partnership (North East LEP) Strategic Risk Register has been reviewed. One change has been made since the register was reported fully in April 2019. The change relates to the operational capacity and resourcing of the North East LEP. The risk score has increased from 8 to 12 moving the risk level from 'amber' to 'red'.

The reason for this change in risk is due to the continued uncertainty over the future funding streams from government. All funding sources relating to staff resourcing, the core operational budget and project delivery are time limited, e.g. Local Growth Fund. With the uncertainty over future replacement funding initiatives current funding sources are not sufficient to allow the Local Enterprise Partnership (LEP) to effectively plan a medium-term budget and operational model.

The North East Joint Transport Committee (JTC) Strategic Risk Register was considered in September 2019 by the JTC Audit Committee. This has been updated with relevant officers for the December Committee meeting.



North East Combined Authority

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North East Combined Authority Audit and Standards Committee

Recommendations

The Audit and Standards Committee is asked to consider the NECA Strategic Risk Register (noting the Strategic Risk Registers of the LEP and TJC) and comment on its content.

North East Combined Authority Audit and Standards Committee

1 Background Information

- 1.1 As a result of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 ('the Order') the North of Tyne Combined Authority (NoTCA) was created, and the boundaries of NECA changed on the 2 November 2018. NECA now covers the local authorities of Durham; Gateshead, South Tyneside and Sunderland; and NoTCA covers Newcastle, North Tyneside and Northumberland.
- 1.2 The two Combined Authorities have responsibility for transport; however, as the former Tyne & Wear passenger transport authority area (and its passenger transport executive, Nexus) straddles the two combined authorities, the Order also provided that they must establish a Joint Transport Committee (JTC) to exercise all transport functions. Hence the JTC was created. NECA also acts as the 'host authority' for the JTC. For these reasons NECA's Strategic Risk Register reflects risks around transport as they affect the achievement of NECA's objectives.
- 1.3 Currently NECA also acts as the 'host authority' to the North East Local Enterprise Partnership (North East LEP). Responsibility for this role is due to transfer to NoTCA from 2020/21. This report includes details of the strategic risks faced by the North East LEP. NECA's strategic risk register reflects risks around economic development where there may be an impact on the achievement of NECA's objectives
- 1.4 NECA defines its strategic risks as those matters which, if they were to occur, could have a material adverse impact upon the achievement of its objectives.

2. Proposals

- 2.1 The Register identifies seven strategic risks. These are:
 - a) Sources and levels of funding available to NECA may not be aligned to the Strategic Economic objectives of NECA.
 - b) Failure of NECA to secure the maximum amount of funding available to progress projects which support the delivery of the Strategic Economic objectives of NECA.
 - c) Funding secured for initiatives within the North-East region by NECA and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects or may be used inappropriately.

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- d) The governance arrangements of NECA are not appropriate to allow effective and timely decision making and the achievement of its objectives.
- e) NECA does not have the necessary operational capacity, skills and budget, to successfully deliver its objectives, plans and responsibilities.
- f) Projects which are funded through NECA are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.
- g) Infrastructure assets which are owned by NECA are inadequately managed and maintained.

2.2 The 'NECA Strategic Risks - Summary' at Appendix 1 identifies the NECA strategic risk areas and for each risk provides i) a current RAG rating to provide a guide as to the level of risk NECA current faces for that risk and ii) the direction of travel.

Appendix 2 'NECA Strategic Risk - Details' provides a detailed description of the nature of each risk together with the relevant controls in place and controls and milestones.

Appendix 3 'Risk Analysis Toolkit' shows the risk scoring matrix that has been applied to assess the level of risk for each of NECA strategic risks.

Appendix 4 'North East LEP Strategic Risks - Summary' describes the North East LEP strategic risk areas and for each risk provides i) a current RAG rating to provide a guide as to the level of risk North East LEP currently faces for that risk and ii) the direction of travel.

Appendix 5 'North East LEP Strategic Risk - Details' provides a detailed description of the nature of each risk together with the relevant controls in place and the next steps.

Appendix 6 contains the report prepared for the JTC Audit Committee in December 2019 regarding the JTC Strategic Risk Register. This describes the risks faced by the JTC, an assessment of the level of risk for each risk identified and the controls in place.

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3. Reason for the Proposals

- 3.1 The Audit and Standards Committee continues to fulfil an ongoing review and assurance role in relation to the governance, risk management and internal control issues of NECA.

4. Next Steps and Timetable for Implementation

- 4.1 The NECA strategic risk register will continue to be reviewed to record, monitor and report the strategic risks to the Audit and Standards Committee at 3 monthly intervals, with support from officers.

5. Potential Impact on Objectives

- 5.1 The development of the strategic risk register will not impact directly on NECA's objectives, however the approach to strategic risk management will support NECA by acknowledging the most significant threats to the achievement of its objectives and putting plans in place to manage them.

6. Finance and Other Resources Implications

- 6.1 There are no financial implications arising from this report. The internal audit service is commissioned under a Service Level Agreement between NECA and Sunderland City Council. The service includes co-ordinating the strategic risk management process. The Internal Audit Service from Sunderland City Council will make available the relevant professionally qualified and experienced auditors to fulfil the requirements of the Audit Plan 2019/20 and strategic risk management.

7. Legal Implications

- 7.1 There are no legal implications arising specifically from this report.

8. Key Risks

- 8.1 The report identifies what are considered to be the key strategic risks to the achievement of NECA's overall objective.

9. Equalities and Diversity

- 9.1 There are no equalities and diversity implications arising from this report.

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10. Crime and Disorder

10.1 There are no crime and disorder implications arising from this report.

11. Consultation /Engagement

11.1 The Head of Paid Service, Monitoring Officer, and the Chief Finance Officer have been consulted on the Strategic Risk Register.

12. Other Impact of the Proposals

12.1 The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

13. Appendices

Appendix 1 – ‘NECA Strategic Risks - Summary’ shows NECA’s strategic risks and the level of risk associated with each.

Appendix 2 – ‘NECA Strategic Risks – Details’ provides a detailed assessment of NECA’s and actions identified to reduce the overall risk exposure.

Appendix 3 – Risk Analysis Toolkit determines the level of risk attached to each risk.

Appendix 4 - ‘North East LEP Strategic Risks – Summary’ –shows North East LEP strategic risks and the level of risk associated with each.

Appendix 5 - ‘North East LEP Strategic Risks – Details’ provides a detailed assessment of North East LEP’s and actions identified to reduce the overall risk exposure.

Appendix 6 - Report prepared for JTC Audit Committee in December 2019 regarding the JTC Strategic Risk Register

14. Background Documents

14.1 None

15. Contact Officers

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tracy.davis@sunderland.gov.uk

Telephone - 0191 5612861

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16. Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

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Appendix 1

NECA Strategic Risks - Summary			
Risk Title & Description	Risk Level (RAG Rating)	Direction of Travel	Notes
<p><u>1 Future Availability of Funding</u></p> <p>Sources and levels of funding available to NECA may not be aligned to the Strategic Economic objectives of NECA.</p>	Red 12	Increasing	Change due to continued uncertainty over future funding available to NECA and key partners e.g. North East LEP
<p><u>2 Funding Opportunities</u></p> <p>Failure of NECA to secure the maximum amount of funding available to progress projects which support the delivery of the Strategic Economic objectives of NECA.</p>	Amber 8	Static	N/a
<p><u>3 Use of Funding and Resources</u></p> <p>Funding secured for initiatives within the North-East region by NECA and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects or may be used inappropriately.</p>	Amber 8	Static	N/a
<p><u>4 Governance Arrangements</u></p> <p>The governance arrangements of NECA are not appropriate to allow effective and timely decision making and the achievement of its objectives</p>	Amber 8	Static	N/a
<p><u>5 Operational Capacity and Resourcing</u></p> <p>NECA does not have the necessary operational capacity, skills and budget, to successfully deliver the it's objectives, plans and responsibilities.</p>	Amber 8	Static	N/a

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<p><u>6 Delivery of Projects/Programmes</u></p> <p>Projects which are funded through NECA are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.</p>	<p>Green 6</p>	<p>Static</p>	<p>N/a</p>
<p><u>7 Infrastructure Assets</u></p> <p>Infrastructure assets which are owned by NECA are inadequately managed and maintained.</p>	<p>Green 6</p>	<p>Static</p>	<p>N/a</p>

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Appendix 2

Strategic Risks - Details

<p>1 <u>Future Availability of Funding</u></p> <p>Sources and levels of funding available to NECA may not be aligned to the Strategic Economic objectives of NECA.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium 3 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 A downturn in the UK economy may result in reduced funds available for investment. 2 A change in future UK government policy may impact on the economic and transport developments and needs of the North-East region. This may have an adverse effect on the achievement of goals in the North East e.g. investment and infrastructure funding to be concentrated in only certain geographic areas excluding the North East or certain types of schemes which may not be in line with NECA plans e.g. Strategic Economic Plan (SEP). 	
<p>Potential Impact/Consequence:</p> <p>A reduction in funding sources and levels would damage the delivery of local regeneration plans and stall infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved. Funding levels may not be sufficient to meet NECA's plans.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • Latest Government figures show that circa £130m remains to be allocated in the North East • NECA and the North East LEP secured £58.5m of JEREMIE 2 grant funding (part of the European Regional Development Fund) and a Special Purpose Vehicle has been established to deliver funding for small and medium sized enterprises. • The SEP has been updated and relaunched in 2019 to acknowledge the significant changes in the global and national economy. • NECA members and officers and partners of NECA, e.g. local councils, continue to lobby and engage with the UK government to: <ol style="list-style-type: none"> a) ensure policy makers and decision makers are aware of the economic and transport vision, plan and policies and needs for the North East are known and to influence policy thinking; b) persuade government to make economic development and transport funding a priority; c) track and discuss the progress of the development of the UKSPF. 	

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- NECA and the North East LEP work with other potential partners to identify new non-government funding sources which may help to progress the delivery of the SEP.
- The North East LEP has employed a dedicated ESF Coordinator to work with partners to maximize the spend of EU Social Funding in the North East.
- The North East LEP is leading the regional development of the Local Industrial Strategy which will also set out future funding requirements to increase productivity in the North East.

Further Mitigating Actions	Lead Officer(s)
NECA and other local partners will continue to work with the Managing Authorities (MHCLG, DWP and DEFRA) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of €560m.	Martin Swales Head of Paid Service
Continue to work with and lobby Government and influence emerging policy thinking.	Martin Swales Head of Paid Service Helen Golightly (Chief Executive North East LEP)

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<p>2 <u>Funding Opportunities</u></p> <p>Failure of NECA to secure the maximum amount of funding available to progress projects which support the delivery of the Strategic Economic Plan for the North-East regions.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1. Funding opportunities are missed due to lack of awareness or missing relevant deadlines or lack of development of appropriate projects. 2. Poor quality of funding applications made by NECA and/or North East LEP, North East Joint Transport Committee (JTC). 3. Funding may be made available through a competitive process e.g. there is also a significant risk that funding for 'Innovation' capital projects will be allocated via national competitions. Strong applications from funding competitors may result in any funding application not being successful at all or only a proportion of the funds applied for being awarded. 4. Failure by NECA to build and develop relationships with key partners to maximise funding opportunities. 	
<p>Potential Impact/Consequence:</p> <p>If opportunities are missed or not maximised by NECA then progression of plans to deliver the economic improvements required by the region will be significantly delayed. Consequently, the benefits associated with the transport will not be fully realised or delayed e.g. supporting economic growth.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • NECA and North East LEP/JTC officers horizon scan to identify upcoming funding opportunities. • NECA and North East LEP/JTC are in regular contact with the UK government and other funding bodies to identify funding opportunities early. • NECA and North East LEP/JTC have established relationships with other bodies e.g. councils, universities etc to allow NECA to work in partnership, where applicable, to exploit funding opportunities by submitting bids for funding to benefit the region. • NECA and North East LEP/JTC and its partners lobby relevant government bodies to promote schemes required for the North East to be included in key government schemes. • The officers of NECA and North East LEP/JTC have the experience, skills and knowledge to submit strong bids for funding. It is familiar with the requirements needed for submitting bid and the process to go through. • All projects included in a bid are subject to scrutiny to ensure the proposed projects is in line with NECA objectives and plans and meets the bid criteria. • During any application process NECA and North East LEP/JTC liaise with the funding provider to understand clearly what it is looking for. 	



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- Local councils and North East LEP/JTC have set up a number of partnership working groups to develop a portfolio of pipeline projects to work up a prioritised set of worked-up projects ready to feed in to project calls. These projects focus on addressing local needs.

Further Mitigating Actions	Lead Officer(s)
NECA and the North East LEP are working with key stakeholders to develop and prepare pipeline projects ready for Government releasing further 'calls' for applications for funding.	Martin Swales Head of Paid Service Helen Golightly Chief Executive North East LEP

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<p>3 <u>Use of Funding and Resources</u></p> <p>Funding secured for initiatives within the North-East region by NECA and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects or may be used inappropriately.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 Poor project management. 2 Inaccurate assessment of projects costs when submitting funding bids. 3 Delays and costs for a project due to unforeseen events. 4 Lack of understanding of funding conditions including timescales. 5 Insufficient capacity and skills to manage projects/programmes. 6 Fraud and corruption. 7 Failure by NECA to secure agreement on the priority of projects within the region it serves. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> 1 Programmes/projects may not be completed or have to be delayed or the size of project reduced e.g. quality, quantity which may results intended benefits not being realised and damage to the reputation of NECA and its partners e.g. North East LEP/JTC. 2 If the funding is not used by a deadline then funding may be lost. 3 Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other NECA plans. 	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • NECA officers and its partner’s e.g. North East LEP have experience, skills and knowledge to submit strong bids for funding. It is familiar with the requirements needed for submitting bid and the process to go through. • All projects included in a bid are subject to scrutiny to ensure the proposed projects are in line with NECA objectives and plans and meets the bid criteria. • Projects delivered by NECA and its partners directly are managed using recognised project management principles. NECA and its partners have the experience and skills to manage projects. • Where projects to be delivered involves a procurement exercise then this must be carried out on a competitive basis. • Where funding is provided through NECA to third parties to deliver a project all third parties must provide details as to progress regarding costs and progress of the project. NECA monitor progress on an ongoing basis together with the legitimacy of spend. 	

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- Funding providers provide clear conditions as to the use of funds which is published to all relevant stakeholders.
- NECA officers are subject to relevant codes of conduct.
- Internal Audit and External Audit arrangements are in place.
- Appropriate controls are in place in delivery of funded programmes.

Further Mitigating Actions	Lead Officer(s)
<p>Delivery plans and programmes are to be kept under review in light of any issues which may affect funding secured to be used on a timely basis or may mean secured funding may not be sufficient to deliver the intended programmes. Appropriate prompt action is taken to address issues which may arise.</p>	<p>Martin Swales Head of Paid Service</p> <p>John Hewitt Chief Finance Officer</p>

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<p>4 Governance Arrangements</p> <p>The governance arrangements of NECA are not appropriate to allow effective and timely decision making and the achievement of its objectives</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ul style="list-style-type: none"> • Changes in the environment in which NECA work render the current governance arrangements out of date e.g. membership, structures, geographical spread. The North East Combined Authority’s decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal has resulted in the seven local authorities (LAs) that made up a single Combined Authority splitting and forming two combined authorities (CAs). NECA now constitutes the four Local Authorities, south of the River Tyne. The North of Tyne Mayoral Combined Authority (NoTCA) was established and constitutes the three LAs north of the River Tyne. The change happened on 2 November 2018. Regional transport continues to operate and be governed at the seven LA geography through the newly formed Joint Transport Committee. • Lack of understanding of nature and objectives and roles of NECA or importance of governance arrangements. • Lack of commitment and/or or organisation or resource to support the set-up of governance arrangements or changes to it. 	
<p>Potential Impact/Consequence:</p> <ul style="list-style-type: none"> • Poor decisions may be made which are not in the interest of NECA region. • Decisions may be delayed, not taken by the most appropriate body or not based on the correct information. • Lack of clarity of roles and responsibilities may lead to NECA not adequately fulfilling its statutory functions, not monitoring it finances, having a lack of clarity over its objectives, not ensuring adequate transport services delivered to the public and improvements in economic and infrastructure not being delivered. This may lead to having a poor reputation, losing out on funds, poor value for money being achieved and the economic benefits of infrastructure projects not being achieved. 	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The seven Local Authorities have approved a Deed of Cooperation which sets out operational working between the 7 Local Authorities and the two Combined Authorities. • The Combined Authorities Reconfiguration Programme (CARP) is overseeing the transformation including data/asset transfers, service and employee changes, updating legal documentation and financial transfers affecting each body including those affecting NECA. • The Statutory Orders provides for the existence of NECA and specifies its current membership, functions and procedures. • Formal decision-making committees including NECA Leadership Board, NECA Overview and Scrutiny Committee, NECA Economic Development and Regeneration Advisory Board etc and Joint 	

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<p>Transport Committee and sub-committees are operational.</p> <ul style="list-style-type: none"> • The 7 Local Authorities continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees • The Strategic Economic Plan (SEP) has been refreshed in 2019 by the North East LEP to ensure the economic priorities remain current, reflecting the region’s economic position • All 7 LAs continue to support the North East LEP and the SEP and are working together to develop the regional Local Industrial Strategy (LIS). • A Strategic Partnership Register has been agreed which identifies all partnerships that are entirely or substantially responsible for delivering or managing an outcome for NECA • A revised Constitution has been adopted by NECA Leadership Board. • Responsibilities for the delivery of support services to NECA by local authorities e.g. finance, legal etc to enable NECA’s governance arrangements to function effectively have been agreed. 	
Further Mitigating Actions	Lead Officer(s)
The Combined Authorities Reconfiguration Programme (CARP) will continue to oversee the development of arrangements of NECA, acknowledging the changes to NECA’s boundaries and the creation of the North of Tyne Mayoral Combined Authority. The two combined authorities and the LEP are working together to implement the changes. This work will continue throughout 2019.	Martin Swales (Head of Paid Service)
NECA Leadership Board will develop and communicate a clear statement of the role, differentiating facts and working arrangements with NoTCA.	Martin Swales (Head of Paid Service)
Audit of governance arrangements to be carried out during 2019/20	Tracy Davis (Senior Manager – Assurance, Sunderland City Council)

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<p>5. <u>Operational Capacity and Resourcing</u></p> <p>NECA does not have the necessary operational capacity, skills and budget, to successfully deliver the objectives and plans.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ul style="list-style-type: none"> • Lack of full appreciation of resources needed for NECA to: <ul style="list-style-type: none"> a) Develop and deliver its objectives and plans. especially in light of the recent change to two Combined Authorities operating within the North-East region rather than one. b) Act as the accountable body to both the North East Joint Transport Committee (JTC) and for the time being, the North East LEP. NECA is the accountable body for the JTC and has extra responsibility for implementing the decisions of the JTC, providing support to the JTC committees and managing the JTC's finances. It is uncertain how much resource will be needed by NECA officers and committee members moving forward therefore the current budget may be insufficient. • Statutory officers to NECA, the accountable body for the JTC, need to carry out duties for their main employer in addition to their roles in NECA which may result in capacity issues. • Insufficient financial resources are allocated for the operation of NECA and the North East LEP. • Lack of commitment by local councils providing support services to NECA. • Key senior officers of NECA and NELEP leave their posts. • Some funding sources for the North East LEP are time limited with significant funding streams due to cease in March 2021 	
<p>Potential Impact/Consequence:</p> <p>Decisions may be delayed, or incomplete information provided as part of the decision-making process. Functions may not be carried out as quickly or as fully as they should be leading to loss of money, incorrect decisions, complaints and loss of credibility of NECA.</p> <p>The JTC and the North East LEP operations may be interrupted by a failure of NECA to provided essential support services.</p>	

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Controls (already in place)

- All statutory officers in NECA have been appointed and are in post. Deputy statutory officers are also in place for NECA
- Representatives from the 4 councils in NECA region have been appointed to NECA and its sub committees. Deputies have also been appointed.
- NECA have adopted a budget for 2019/20 to meet the costs of the capacity, skills and expertise need to deliver JTC activities.
- A further finance officer has been employed by NECA to help meet the extra demands of NECA's role place as the Accountable Body for the JTC.
- Partners continue to engage through the formal meetings of the Combined Authority and LA7, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels.
- Economic Directors' Group have put in place a programme of work, looking at the impact of Brexit on the economy, Local Authority finances and the region more widely.
- NECA Leadership Board has agreed a budget for its capital programme for 2019/20.
- As part of the budget process Chief Executives and the Head of Paid Service identified the risks relating to capacity and political commitment. The four local authority Chief Executives are reviewing the capacity required for the future.
- In respect of the North East LEP resources, a budget has been agreed for 2019/20, some reserves are available, there is the potential to call on financial resources relating to Enterprise Zone income if required and there is ongoing monitoring of external funding landscape to secure alternative sources

Further Mitigating Actions	Lead Officer(s)
Accountable Body Arrangements – NECA continue to be the Host Combined Authority for the North East LEP in the short term and is also the accountable body for the Joint Transport Committee and the functions delegated to it. NECA will host the Transport Strategic Unit including the Proper Officer for Transport.	Martin Swales (Head of Paid Service)
A review of resource requirements for the new combined authority is underway.	John Hewitt Chief Finance Officer

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<p>6 <u>Delivery of Projects/Programmes</u></p> <p>Projects which are funded through NECA are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Green 6</p>
	<p>Likelihood – Low 2 Impact – Significant 3</p>
<p>Possible Causes(s):</p> <ol style="list-style-type: none"> 1 Poor project management. 2 Inaccurate assessment of projects costs when submitting funding bids. 3 Delays and costs for a project due to unforeseen events. 4 Insufficient capacity and skills to manage projects. 5 Fraud and corruption. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> 1 Projects may not be completed or have to be delayed or the size of project reduced e.g. quality, quantity which may results intended benefits not being realised and damage to the reputation of NECA. 2 If the funding is not used by a deadline then funding may be lost. 3 Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other NECA plans. 	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • NECA officer and its partner's e.g. North East LEP have experience, skills and knowledge to submit strong bids for funding. It is familiar with the requirements needed for submitting bid and the process to go through. • All projects included in a bid are subject to scrutiny to ensure the proposed projects is in line with NECA objectives and plans and meets the bid criteria. • Projects delivered by NECA and its partners directly are managed using recognised project management principles. NECA and its partners have the experience and skills to manage projects • Where projects to be delivered involves a procurement exercise then this must be carried out on a competitive basis. • Where funding is provided through NECA to third parties to deliver a project all third parties must provide details as to progress regarding costs and progress of the project. • Funding providers provide clear conditions as to the use of funds which are published to all relevant stakeholders. 	
<p>Further Mitigating Actions</p>	<p>Lead Officer(s)</p>
<p>Monitoring of the delivery of the overall programme of projects should be carried out on a regular basis.</p>	<p>Martin Swales (Head of Paid Service)</p>

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<p>7 <u>Infrastructure Assets</u></p> <p>Infrastructure assets which are owned by NECA are inadequately managed and maintained.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Green 6</p>
	<p>Likelihood – Low 2 Impact – Significant 3</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 Lack of awareness of the existence of the asset. 2 Lack of clarity as to who has responsibility for the management and maintenance of the assets. 3 Lack of clarity as to maintenance standards required. 4 Lack of resources to maintain the assets. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> 1 Greater financial resources may be needed to rectify faults arising from poor maintenance. 2 Failures in infrastructure assets may affect services delivered to users leading to disruption and complaints and a drop-in usage. If the funding is not used by a deadline then funding may be lost 3 Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other JTC plans. 	
<p><u>Controls (already in place)</u></p> <ol style="list-style-type: none"> 1 The Orders relating to NECA and its Constitution makes it clear who has overall responsibility and oversight for infrastructure assets it owns. 2 NECA holds a record of assets it is responsible for. 3 Responsibility for the maintenance of assets and the standards required are included in the relevant agreements with third party providers e.g. TT2 Ltd. As part of the agreements reports need to be submitted to NECA to enable to gain assurance the relevant maintenance is being carried out. 	
<p>Further Mitigating Actions</p> <p>Asset management arrangement continue to provide assurance over the maintenance of NECA's assets.</p>	<p>Lead Officer(s)</p> <p>Martin Swales (Head of Paid Service)</p>

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Appendix 3

Risk Analysis Toolkit

Determine the risk priority					
Impact					
Likelihood		Insignificant	Minor	Significant	Critical
	High	4	8	12	16
	Medium	3	6	9	12
	Low	2	4	6	8
	Negligible	1	2	3	4

Assess the likelihood of the risk event occurring	
High	Risk will almost certainly occur
Medium	Risk is likely to occur in most circumstances
Low	Risk may occur
Negligible	Risk is unlikely to occur

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopper	<ul style="list-style-type: none"> Over half the objectives/programmes affected More than one critical objective affected Partners do not commit to the Shared vision 	<ul style="list-style-type: none"> Significant change in partner services Relationship breakdown between major partners and stakeholders Serious impact on delivery of key transport related investment plans Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project Serious impact on services provided to users 	<ul style="list-style-type: none"> Inability to secure or loss of significant funding opportunity (£5m) Significant financial loss in one or more partners (£2m) Significant adverse impact on budgets (£3m) 	<ul style="list-style-type: none"> Adverse national media attention External criticism (press) Significant change in confidence or satisfaction of stakeholders Significant loss of community confidence
Significant	<ul style="list-style-type: none"> One or more objectives/programmes affected One or more partners do not commit to shared vision Significant environmental impact 	<ul style="list-style-type: none"> Partner unable to commit to joint arrangements Recoverable impact on delivery of key transport related investment plans Major project failure Impact on services provided to users 	<ul style="list-style-type: none"> Prosecution Change in notable funding or loss of major funding opportunity (£2m) Notable change in a Partners contribution Notable adverse impact on budget (£0.5m-£1.5m) 	<ul style="list-style-type: none"> Notable external criticism Notable change in confidence or satisfaction Internal dispute between partners Adverse national/regional media attention Lack of partner consultation Significant change in community confidence
Minor	<ul style="list-style-type: none"> Less than 2 priority outcomes adversely affected Isolated serious injury/ill health Minor environmental impact 	<ul style="list-style-type: none"> Threatened loss of partner's commitment Minor impact on services provided to users 	<ul style="list-style-type: none"> Minor financial loss in more than one partner Some/loss of funding or funding opportunity threatened 	<ul style="list-style-type: none"> Failure to reach agreement with individual partner Change in confidence or satisfaction Minor change in community confidence

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Insignif.	<ul style="list-style-type: none"> • Minor effect on priorities/service objectives • Isolated minor injury/ill health • No environmental impact 		<ul style="list-style-type: none"> • Isolated/minor financial impact in a partner organisation 	
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Glossary of Terms

RAG – Red/Amber/Green (denoting an assigned performance status)

Strategic Risk - relates to those factors that might have a significant effect on the successful delivery of the JTC’s objectives, plans, policies and priorities.

Risk - A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities.

Risk Appetite - The level of risk that an organisation is prepared to accept in pursuit of its objectives, and before action is deemed necessary to reduce the risk.

Risk Controls or Control Processes - are those actions and arrangements which are specifically identified to be taken to lower the impact of the risk or reduce the likelihood of the risk materialising, or both of these.

Risk Matrix - a graphical representation of the Risk Severity and the extent to which the Controls mitigate it.

Risk Owner - has overall responsibility for the management and reporting of the risk.

Lead Officer(s) – given delegated responsibility from the Risk Owner to take action and manage the risk through application of the appropriate risk controls and processes.

Risk Impact - indicates the potential seriousness should the risk materialise.

Risk Likelihood - indicates the chance of a risk materialising in the time period under consideration.

Risk Score - the product of the Impact score multiplied by the Likelihood score.

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Appendix 4

North East LEP Strategic Risks – Summary			
Risk Title & Description	Risk Level (RAG Rating)	Direction of Travel	Notes
<p><u>1 Operational Capacity and Resourcing</u></p> <p>Medium term operational budget may not be sufficient to maintain the current capacity within the team to lead the delivery of the Strategic Economic Plan (SEP) and to react to the impact of Brexit and potential changes to Government policies due to multiple short term (often annual) funding sources.</p>	Red 12	Increasing	Change due to continued uncertainty over future funding available to North East LEP. Currently all funding sources relating core operations are time limited.
<p><u>2 Increase in the role and scope of LEPs by a new government with no new resource to support the additional responsibility(ies)</u></p> <p>Future government policy may fail to allocate sufficient operational budgets despite increasing the role, scope and remit of LEP activity through changes in national policy, and in particular as a consequence of the Strengthening LEPs Report (2018) and Brexit preparation work.</p>	Red 12	Static	N/a
<p><u>3 Government Capital Funding</u></p> <p>A change in future government policy may have a detrimental impact on available capital funding to support the delivery of the strategic projects within the SEP and the emerging Local Industrial Strategy (LIS).</p>	Red 12	Static	N/a
<p><u>4 European Funding</u></p> <p>Failure of the North East LEP area to secure the full notional funding (circa £500m) allocated to the North East through European Structural and Investment Funding (ESIF) programmes will significantly impact on the delivery of the Strategic Economic Plan.</p>	Amber 9	Static	N/a

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<p><u>5 North East Regional Governance</u></p> <p>The LEP area covers seven local authorities and two combined authorities, one of which is mayoral. The LEP area is unique in England to have more than one combined authority which may impact on SEP and LIS delivery as governance structures and the accountable body status are reviewed.</p>	Red 12	Static	N/a
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Appendix 5

North East LEP Strategic Risk - Details

<p><u>1 Operational capacity and resourcing</u></p> <p>Medium term operational budget may not be sufficient to maintain the current capacity within the team to lead the delivery of the Strategic Economic Plan (SEP) and to react to the impact of Brexit and potential changes to Government policies due to multiple short term (often annual) funding sources.</p>	<p><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p>Cause: All funding sources relating to staff resourcing, the core operational budget and project delivery are time limited and are not sufficient to allow the Local Enterprise Partnership (LEP) to effectively plan a medium-term budget and operational model.</p>	
<p>Impact/Consequence: The LEP will need to adjust to operate with a reduced level of staffing resource, limiting and prioritising the scope of work that can be delivered, if future funding is not made available and/or secured.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The 2019/20 LEP operational budget was agreed by the LEP Board and its accountable body • Some financial reserves are held by the LEP from previous financial years • Potential to call on financial resources relating to Enterprise Zone income if required • On-going monitoring of external funding landscape and actions to secure alternative sources 	
<u>Next Steps</u>	<u>Lead Officer(s)</u>
Budget management and forecasting on-going	Helen Golightly (Chief Executive)
Creation of a new company limited by guarantee sits alongside the LEP structure which enables a wider source of funding applications to be made and the LEP to seek funding from other sources	Helen Golightly (Chief Executive)
On-going horizon scanning for funding opportunities to support the team and delivery.	Helen Golightly (Chief Executive)

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<p><u>2 Increase in the role and scope of LEPs by a new government with no new resource to support the additional responsibility(ies)</u></p> <p>Future government policy may fail to allocate sufficient operational budgets despite increasing the role, scope and remit of LEP activity through changes in national policy, and in particular as a consequence of the Strengthening LEPs Report (2018) and Brexit preparation work.</p>	<p><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p>Cause: Government have reviewed the role and scope of LEP activity which is set out in the paper ‘Strengthening LEPs’. Government requires LEPs to be independent of local authorities with a wider remit around Local Industrial Strategies and funding. There needs to be sufficient financial resources made available to LEPs to carry out any increased responsibility and activity.</p>	
<p>Impact/Consequence: The LEP operational budget does not have sufficient head-room to add any financial resource for additional staff. This could lead to current staff resource being spread too thinly, reducing impact and effectiveness in facilitating the delivery of the Strategic Economic Plan.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The LEP continues to work closely with government to try to influence policy and its practical implications • The LEP Network (national body) plays a key lobbying role with government • The LEP secured an additional £200K for 2019/20. 	
Next Steps	Lead Officer(s)
Continue to lobby and influence Government	Helen Golightly (Chief Executive)
Consider and respond to any changes as they emerge	Helen Golightly (Chief Executive)

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<p><u>3 Government Capital Funding</u></p> <p>A change in future government policy may have a detrimental impact on available capital funding to support the delivery of the strategic projects within the SEP and the emerging Local Industrial Strategy (LIS).</p>	<p><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p>Cause: There is uncertainty around future government policy regarding the design, function and level of future regional/local strategic capital funding sources. This may have an adverse effect on the achievement of goals in the North East.</p>	
<p>Impact/Consequence: Without a clear understanding of future potential funding, the development and delivery of strategic projects related to the SEP and the emerging Local Industrial Strategy post 2021 is at risk.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The 2019 refreshed SEP is strongly aligned to key government policies which should attract investment if it becomes available. • The LEP is working with government to influence policy and funding thinking • The LEP is leading the regional development of the emerging Local Industrial Strategy which will enable a conversation with government about strategic projects and investment to work with us to increase productivity in the North East. • The LEP is working with regional partners to develop a pipeline of strategic projects in preparation. • The LEP is working with regional partners to develop a portfolio of Innovation pipeline projects to work up a prioritised set of worked-up projects. 	
<p>Next Steps</p>	<p>Lead Officer(s)</p>
<p>Continue to develop a pipeline of projects (where appropriate) to be ready to 'win' funding as it becomes available.</p>	<p>Helen Golightly (Chief Executive)</p>
<p>Continue to work with government and influence emerging policy thinking.</p>	<p>Helen Golightly (Chief Executive)</p>
<p>Develop a portfolio of innovation projects with regional partners</p>	<p>Alan Welby (Innovation Director)</p>

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<p><u>4 European Funding</u></p> <p>Failure of the North East LEP area to secure the full notional funding (circa £500m) allocated to the North East through European Structural and Investment Funding (ESIF) programmes will significantly impact on the delivery of the Strategic Economic Plan.</p>	<p><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Amber 9</p>
	<p>Likelihood – Medium Impact – Significant</p>
<p>Cause: ESIF programme implementation was delayed whilst the impact of the EU Referendum was reviewed by government departments. This has led to national underperformance against profiled commitment/spend for some parts of the programme. Changes in future government policy may have a detrimental impact on future funding opportunities beyond ESIF however currently there is uncertainty about the future.</p>	
<p>Impact/Consequence: The ability to secure the North East LEP area’s full quota of European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The seven local authorities with the LEP secured £58.5m of ESIF to continue the JEREMIE programme. A Special Purpose Vehicle has been established to deliver funding for projects, supporting small and medium sized enterprises known as the North-East Fund Ltd. • The North East LEP with both combined authorities work with partners to develop local content to feed into the national project calls to ensure the funding is appropriately focussed on local need in order to maximise spend in the North East. • The North East Technical Assistance project, led by Northumberland County Council on behalf of the local authority partners; is supporting local partners with their ESIF applications to maximise access to the funding available • The Strategic Economic Plan (SEP) was refreshed in early 2019 to ensure its priorities remain current. The SEP is aligned to the North East ESIF Strategy, to direct the allocation of European Funding to grow the North-East Economy • The LEP has employed a dedicated officer to work with partners to maximize the spend of EU Social Funding in the North East. 	
<p>Next Steps</p>	
<p>The North East LEP and other local partners are working with the Managing Authorities (DHCLG, DWP and Defra) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of €560m Euros.</p>	<p>Helen Golightly (Chief Executive)</p>
<p>The LEP Executive Team is working with key stakeholders to prepare projects ready for Government releasing further ‘calls’ for applications for funding.</p>	<p>Helen Golightly (Chief Executive)</p>

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<p><u>5 North East Regional Governance</u></p> <p>The LEP area covers seven local authorities and two combined authorities, one of which is mayoral. The LEP area is unique in England to have more than one combined authority which may impact on SEP and LIS delivery as governance structures and the accountable body status are reviewed.</p>	<p><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p>Cause:</p> <p>The North East Combined Authority’s (NECA) decision to proceed with the North of Tyne Mayoral Combined Authority has led to the regional governance structures changing as two combined authorities were created in November 2018, both of which have agreed to support and operate effectively with the North East LEP. One of the combined authorities should also act as the accountable body for the LEP. Currently the accountable body is NECA, but the seven local authorities propose that this role changes to the North of Tyne Combined Authority, which has been agreed in principal by the LEP Board.</p>	
<p>Impact/Consequence:</p> <p>As we move to two combined authorities, the governance, roles and responsibilities need to be clear at a local level and by national government to ensure effective strategy development, delivery of economic development activity and partnership working.</p> <p>It is also vital that any changes to the accountable body position of the North East LEP must not be detrimental to the current effective operations or financial position.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • All seven local authorities are committed to supporting the North East LEP and the delivery of the SEP as set out in their signed Deed of Cooperation. • There is a live Accountable Body Agreement and some Service Level Agreements in place that provide an effective starting point to consider the proposal to change accountable bodies. • The LEP needs to be satisfied by the proposed changes, support arrangements and financial model before final agreement to the change is confirmed. 	
<p>Next Steps</p>	<p>Lead Officer(s)</p>
<p>Continue to work effectively with all seven local authorities and both combined authorities on shared agendas, strategy development and delivery.</p>	<p>Helen Golightly (Chief Executive)</p>
<p>Work with both combined authorities to ensure any change in accountable is not detrimental to the LEP or the future host combined authority.</p>	<p>Helen Golightly (Chief Executive)</p>

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Appendix 6

Date: 18 December 2019

Subject: Joint Transport Committee Strategic Risk Register

Report Of: Senior Manager – Assurance, Sunderland City Council

Executive Summary

The purpose of this report is to provide members with an up to date assessment of the strategic risks the North East Joint Transport Committee (JTC) faces as it seeks to achieve its objectives.

The JTC strategic risk register contains eight risks which were previously reported to the JTC Audit Sub-Committee during September 2019.

Seven of the strategic risks have remained stable with no changes reported since the previous update to the Sub-Committee in July 2019. The exception relates to the risk that sources and levels of funding available to the JTC to develop the North-East region's transport infrastructure within the region may reduce. The risk score has increased from 8 to 12 moving the risk level from 'amber' to 'red'.

The reason for the change in risk level is due to the continued uncertainty around possible future changes in UK government policy which may impact on economic and transport developments and the needs of the North-East region. While the JTC is taking action to mitigate the risk, the source of the risk is external to the organisation and as such is beyond its control.

Recommendations

The Audit Committee is asked to consider the strategic risk register and comment on its content.

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1 Background Information

- 1.1 The North East Combined Authority (NECA) was established in April 2014 and brought together seven councils within the North East. As a result of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 ('the Order') the North of Tyne Combined Authority (NoTCA) was created, and the boundaries of NECA changed on the 2 November 2018. NECA now covers the local authorities of Durham; Gateshead, South Tyneside and Sunderland; and NoTCA covers Newcastle, North Tyneside and Northumberland.
- 1.2 The two Combined Authorities have responsibility for transport; however, as the former Tyne & Wear passenger transport authority area (and its passenger transport executive, Nexus) straddle the two combined authorities, the Order also provided that they must establish a joint transport committee to exercise all transport functions. Hence the JTC was created.
- 1.3 The JTC defines its strategic risks as those matters which, if they were to occur, could have a material adverse impact upon the achievement of the JTC's objective to provide integrated, affordable, attractive, reliable, safe, healthy, transport choices in the North East (LA7) area which meets the needs of businesses, residents and visitors, supports economic activity whilst enhancing the environment.
- 1.4 This report offers the JTC's Audit Committee the opportunity to consider the nature and level of risk the JTC faces in seeking to achieve its overall objective. The strategic risk register has been updated in light of the content of recent reports considered by the JTC Committee and its sub-committees and discussions with NECA and JTC officers.

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2. Proposals

2.1 The Register identifies eight strategic risks. These are:

- a) Sources and levels of funding available to the JTC to develop the North-East regions transport infrastructure within the region may reduce.
- b) Failure of the JTC to secure the maximum amount of transport funding available to progress transport infrastructure in the North-East region.
- c) Funding secured for transport initiatives within the North-East region by the JTC and its partners may not be able to be used on a timely basis or be sufficient to complete intended projects.
- d) The governance arrangements of the JTC are not appropriate to allow effective and timely decision making and the achievement of its objectives.
- e) The JTC does not have the necessary operational capacity, skills and budget, to successfully deliver the JTC's objectives and plans.
- f) Projects which are funded through the JTC are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.
- g) Transport assets, which are the responsibility of the JTC, are inadequately managed and maintained.
- h) Inadequate arrangements are in place to ensure that adequate levels of public transport services, for which the JTC has oversight, are maintained by the JTC's transport delivery partners.

2.2 The 'Strategic Risks Summary' at Appendix 1 shows the eight risk areas and for each risk provides a current RAG rating to provide a guide as to the level of risk the JTC currently faces for that risk. The direction of travel is also recorded together with reason for any changes to risk levels.

Appendix 2 'Strategic Risk - Details' provides a detailed description of the nature of each risk together with the relevant controls in place and controls and milestones.

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Appendix 3 'Risk Analysis Toolkit' shows the risk scoring matrix that has been applied to assess the level of risk for each of the JTC strategic risks.

- 2.3 The Strategic Risk Register for regional transport will continue to be reviewed to record, monitor and report the strategic risks to the Audit Committee on a quarterly basis, with support from officers. Where appropriate, the risks will also be provided to NECA's Audit and Standards Committee and NoTCA for information.

3. Reason for the Proposals

- 3.1 The Audit Committee continues to fulfil an ongoing review and assurance role in relation to the governance, risk management and internal control issues of the JTC.

4. Next Steps and Timetable for Implementation

- 4.1 The Strategic Risk Register will be regularly reviewed. Update reports will be provided to the JTC Audit Committee.

5. Potential Impact on Objectives

- 5.1 The development of the Strategic Risk Register will not impact directly on the JTC's objectives, however the approach to strategic risk management will support the JTC by acknowledging the most significant threats to the achievement of its objectives and putting plans in place to manage them.

6. Finance and Other Resources Implications

- 6.1 There are no financial implications arising from this report.

7. Legal Implications

- 7.1 There are no legal implications arising specifically from this report.

8. Key Risks

- 8.1 The report identifies what are considered to be the key strategic risks to the achievement of the JTC's overall objectives.

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9. Equalities and Diversity

9.1 There are no equalities and diversity implications arising from this report.

10. Crime and Disorder

10.1 There are no crime and disorder implications arising from this report.

11. Consultation /Engagement

11.1 The Head of Paid Service, Monitoring Officer, Chief Finance Officer and the JTC's Proper Officer for Transport have been consulted on the Strategic Risk Register.

12. Other Impact of the Proposals

12.1 The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

13. Appendices

Appendix A – 'Risks Summary' shows the JTC's strategic risks and the level of risk associated with each.

Appendix B – 'Strategic Risks – Details' provides a detailed assessment of the JTC's and actions identified to reduce the overall risk exposure.

Appendix C – Risk Analysis Toolkit determines the level of risk attached to each Risk.

14. Background Documents

14.1 The latest [Nexus Corporate Risk Register](#) can be found on the NECA website as part of the North East Joint Transport Committee, Tyne and Wear Sub-Committee, which focuses on transport issues for both NECA and the North of Tyne Combined Authority within the Tyne and Wear Area.

15. Contact Officers

Tracy Davis – Senior Manager – Assurance, Sunderland City Council.

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Telephone - 0191 5612861

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16. Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓
- Proper Officer for Transport ✓

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Appendix 1

Strategic Risks - Summary			
Risk Title & Description	Risk Level (RAG Rating)	Direction of Travel	Notes

JTC Strategic Risks			
<p><u>1 Future Availability of Funding</u></p> <p>Sources and levels of funding available to the JTC to develop the North-East regions transport infrastructure within the region may reduce.</p>	Red 12	Increasing	Change due to continued uncertainty over future funding available to JTC and key partners e.g. Nexus
<p><u>2 Funding Opportunities</u></p> <p>Failure of the JTC to secure the maximum amount of transport funding available to progress transport infrastructure in the North-East region.</p>	Amber 8	Static	N/a
<p><u>3 Use of Funding and Resources</u></p> <p>Funding secured for transport initiatives within the North-East region by the JTC and its partners may not be able to be used on a timely basis or be sufficient to complete intended projects.</p>	Amber 8	Static	N/a
<p><u>4 Governance Arrangements</u></p> <p>The governance arrangements of the JTC are not appropriate to allow effective and timely decision making and the achievement of its objectives</p>	Amber 8	Static	N/a
<p><u>5 Operational Capacity and Resourcing</u></p> <p>The JTC does not have the necessary operational capacity, skills and budget, to successfully deliver the JTC's objectives and plans.</p>	Amber 8	Static	N/a
<p><u>6 Delivery of Transport Improvement Projects/Programmes</u></p> <p>Projects which are funded through the JTC are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.</p>	Amber 8	Static	N/a

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<p><u>7 Transport Infrastructure Assets</u></p> <p>Transport assets, which are the responsibility of the JTC, are inadequately managed and maintained.</p>	<p>Green 6</p>	<p>Static</p>	<p>N/a</p>
<p><u>8 Service Delivery</u></p> <p>Inadequate arrangements are in place to ensure that adequate levels of public transport services, for which the JTC has oversight, are maintained by the JTC's transport delivery partners.</p>	<p>Green 6</p>	<p>Static</p>	<p>N/a</p>

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Appendix 2

Strategic Risks - Details

<p>1 <u>Future Availability of Funding</u></p> <p>Sources and levels of funding available to the JTC to develop the North-East regions transport infrastructure within the region may reduce.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium 3 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 A downturn in the UK economy may result in reduced funds available for investment. 2 A change in future UK government policy may impact on economic and transport developments and needs of the North-East region. This may have an adverse effect on the achievement of goals in the North East e.g. investment and infrastructure funding to be concentrated in only certain geographic areas excluding the North East or certain types of schemes which may not be in line with NECA plans e.g. Strategic Economic Plan (SEP). 	
<p>Potential Impact/Consequence:</p> <p>The JTC would not able to deliver projects to either maintain infrastructure to ensure adequate public transport services are maintained or to improve infrastructure to enhance transport services. This would hinder future economic growth within the region.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • JTC members, NECA officers supporting the JTC and partners of the JTC e.g. local Councils continue to lobby and engage with the UK government at national and subnational level i.e. Transport for the North (TfN) to: <ol style="list-style-type: none"> a) ensure policy makers and decision makers are aware of the transport vision, plan and policies and needs for the North East are known and b) persuade government to make transport funding a priority. • JTC work with other potential partners to identify new non-government funding sources which may help to progress the delivery of the JTC transport plans. 	
<p>Further Mitigating Actions</p> <p>A review is to be carried out to produce and publish an updated transport vision and transport plan which is evidence based and sets out how transport needs will be addressed taking into account relevant government policies.</p>	<p>Lead Officer(s)</p> <p>Tobyn Hughes Managing Director, North East</p>

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<p>2 Funding Opportunities</p> <p>Failure of the JTC to secure the maximum amount of transport funding available to progress transport infrastructure in the North East region.</p>	<p>Risk Owner Head of Paid Service</p> <p>Risk Score</p> <p style="background-color: yellow;">Amber 8</p> <p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1. Funding opportunities are missed due to lack of awareness or missing relevant deadlines. 2. Poor quality of funding applications made by JTC 3. Funding may be made available through a competitive process. Strong applications from funding competitors may result in any funding application not being successful at all or only a proportion of the funds applied for being awarded. 	
<p>Potential Impact/Consequence:</p> <p>If opportunities are missed or not maximised by the JTC then progression of plans to deliver the transport improvements required by the region will be significantly delayed. Consequently, the benefits associated with the transport will not be fully realised or delayed e.g. supporting economic growth.</p>	
<p>Controls (already in place)</p> <ul style="list-style-type: none"> • JTC officers’ horizon scan to identify upcoming funding opportunities. • JTC are in regular contact with the UK government and other funding bodies to identify funding opportunities early. • JTC has established relationships with other bodies at a sub national (e.g. TfN) and local level e.g. councils, universities etc to allow the JTC to work in partnership, where applicable, to exploit funding opportunities by submitting bids for transport funding to benefit the region. • JTC and its partners lobby relevant government bodies to persuade transport infrastructure schemes required for the North East to be included in key government schemes. • The Managing Director, Transport North East and officers of the Transport Strategy Unit (TSU) have experience, skills and knowledge to submit strong bids for funding. They are familiar with the requirements needed for submitting bids and the process to go through. • All projects included in a bid are subject to scrutiny using the TSU’s ‘Transport Assurance Framework’ to ensure the proposed projects are in line with the JTC objectives and plans and meets the bid criteria. • During any application process the TSU liaises with the provider to understand clearly what it is looking for. 	
<p>Further Mitigating Actions</p>	<p>Lead Officer(s)</p>
<p>A review is to be carried out to produce and publish an updated transport vision and transport plan which is evidence based and sets</p>	<p>Tobyn Hughes Managing Director, North East</p>

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out how projects will be delivered to meet transport needs with a strong business case.	
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<p>3 <u>Use of Funding and Resources</u></p> <p>Funding secured for transport initiatives within the North-East region by the JTC and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> Poor project management. Inaccurate assessment of projects costs when submitting funding bids. Delays and costs for a project due to unforeseen events. Lack of understanding of funding conditions including timescales. Insufficient capacity and skills to manage projects. Fraud and corruption. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> Transport projects may not be completed or have to be delayed or the size of project reduced e.g. quality, quantity which may result in intended benefits not being realised and damage to the reputation of the JTC. If the funding is not used by a deadline then funding may be lost. Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other JTC plans. 	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> The Managing Director, Transport North East and officers of the Transport Strategy Unit (TSU) have experience, skills and knowledge to submit strong bids for funding. They are familiar with the requirements needed for submitting bids and the process to go through. All projects included in a bid are subject to scrutiny using the TSU's 'Transport Assurance Framework' to ensure the proposed projects is in line with the JTC objectives and plans and meets the bid criteria. Projects delivered by the JTC directly are managed using recognised project management principles. The TSU has the experience and skills to manage projects. Where projects are delivered by the JTC's partners e.g. Nexus, the JTC has arrangements in place to gain assurance that the projects are progressing as expected and where not, corrective actions are being taken to effectively manage the key issues e.g. regular reporting by partners. Where transport projects are to be delivered by an external supplier then any work let is subject to a competitive procurement process. Where funding is provided through the JTC to third parties to deliver a transport project all third parties have a funding agreement in place which includes the need for the third party to provide details as to progress regarding costs and progress of the project. JTC officers monitor progress on 	

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<p>an ongoing basis.</p> <ul style="list-style-type: none"> • Funding providers provide clear conditions as to the use of funds which is published to all relevant stakeholders. • JTC officer are subject to relevant codes of conduct 	
Further Mitigating Actions	Lead Officer(s)
<p>Delivery plans and programmes are to be kept under review in light of any issues which may affect funding secured to be used on a timely basis or may mean secured funding may not be sufficient to deliver the intended programmes. Appropriate prompt action is taken to address issues which may arise.</p>	<p>Tobyn Hughes (Managing Director, North East) John Hewitt (NECA Finance Officer)</p>

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<p>4 Governance Arrangements</p> <p>The governance arrangements of the JTC are not appropriate to allow effective and timely decision making and the achievement of its objectives</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s): New organisational arrangements have been put in place as a result of the North East Combined Authority’s decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal. Two new Combined Authorities have been established together with the North-East Transport Committee being responsible for regional transport which is accountable to the new Combined Authorities. As a result, new governance arrangements may not be effective due to:</p> <ul style="list-style-type: none"> • Lack of capacity to support the governance arrangements • Lack of clarity of roles and responsibilities • Lack of development of new working arrangements or delays in implementing proposed changes • Priorities not aligned to new arrangements. 	
<p>Potential Impact/Consequence: Poor decisions may be made which are not in the interest of the North-East region. Decisions may be delayed, not taken at the appropriate level or not based on the correct information. Lack of clarity of roles and responsibilities may lead to the JTC not adequately fulfilling its statutory functions adequately, not monitoring its finances, having a lack of clarity over its objectives, not ensuring adequate transport services delivered to the public and improvements in transport infrastructure not being delivered. This may lead to having a poor reputation, losing out on funds, poor value for money being achieved and poor transport service provision.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The seven Local Authorities have approved a Deed of Cooperation which sets out operational working between the 7 Local Authorities and the two Combined Authorities. • The Combined Authorities Reconfiguration Programme (CARP) is overseeing the transformation including data/asset transfers, service and employee changes, updating legal documentation and financial transfers affecting each body including those affecting the JTC. • The Statutory Order provides for the existence of the JTC and specifies its current membership and functions. • Formal decision-making committees including Joint Transport Committee and sub-committees are operational. • The 7 LAs continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees. • All 7 LAs continue to support the JTC and its activities. • The JTC has its own Standing Orders outlining its functions and that of its sub committees, its rules of 	

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procedure and the roles of statutory officers. Decisions at committee meetings are based on a majority vote basis although the aim is to have a consensual approach whereby all committee members agree on any decision.

- The statutory role of ‘Proper Officer for Transport’ was established by the Statutory Order. A job description has been developed which clarifies the role including leading the Transport Strategy Unit. The post incorporates not only the role of Proper Officer for Transport accountable to the JTC but also the Director General of Nexus, a key deliverer of transport policy and services in the region.

Further Mitigating Actions	Lead Officer(s)
The Combined Authorities Reconfiguration Programme (CARP) will continue to oversee the development of the arrangements within the combined authorities. The two combined authorities and the JTC are working together to implement the changes. This work will continue throughout 2019.	Martin Swales (NECA, Head of Paid Service)
Review of the powers delegated by the JTC to officers supporting its work e.g. statutory officers including Proper Officer for Transport; NECA, Transport Strategy Unit officers.	Tobyn Hughes (Managing Director Transport North East) Mike Harding (NECA Monitoring Officer)
Review of roles, responsibilities, and arrangements regarding the activities of the Transport Strategy Unit including business planning, performance management, project assurance, overseeing of delivery programmes etc. and implementation of revised arrangements.	Tobyn Hughes (Managing Director Transport North East) Mike Harding (NECA Monitoring Officer)

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<p>5. Operational Capacity and Resourcing</p> <p>The JTC does not have the necessary operational capacity, skills and budget, to successfully deliver the Committee's objectives and plans.</p>	<p>Risk Owner Head of Paid Service</p>
	<p>Risk Score</p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <p>Due to two Combined Authorities operating within the North-East region rather than one, by statutory order the JTC was formed to carry out the transport function responsibilities of the two Combined Authorities. NECA is the accountable body for the new JTC and has extra responsibility for implementing the decisions of the JTC, providing support to the JTC committees and managing the JTC's finances. It is uncertain how much resource will be needed by NECA officers and committee members moving forward therefore the current budget may be insufficient.</p> <p>Statutory officers to NECA, the accountable body for the JTC, need to carry out duties for their main employer in addition to their roles in NECA which may result in capacity issues. Likewise, the Managing Director, Transport North East fulfil two roles, one for the JTC and one for Nexus. Support services provided to NECA and the JTC are provided from Council's which are part of NECA</p>	
<p>Potential Impact/Consequence:</p> <p>Decisions may be delayed, or incomplete information provided as part of the decision-making process. Functions may not be carried out as quickly or as fully as they should be leading to loss of money, incorrect decisions, and loss of credibility of JTC.</p>	
<p>Controls (already in place)</p> <ul style="list-style-type: none"> • All statutory officers in NECA, accountable body for the JTC are in place. Deputy statutory officers are also in place for NECA. • The 'Proper Office for Transport' to the JTC is in place. • Representatives from the 7 councils in the North-East area have been appointed to the JTC and the Tyne Wear Sub Committee. Deputies have also been appointed. • The JTC have adopted a budget for 2019/20 to deliver JTC activities. • The Transport Strategy Unit, made of seconded officers from Councils and Nexus, is in place to support the delivery of the JTC objectives. • Partners continue to provide input to the work of the JTC via, for example, Council transport leads. • Where appropriate, external consultants, are employed to provide specialist expertise to support the work of the JTC and to protect its interests e.g. advice in respect of possible changes to the contract to manage and operate the Tyne Tunnel services. • A further finance officer has been employed by NECA to help meet the extra demands of NECA as the Accountable Body for the JTC. 	

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Further Mitigating Actions	Lead Officer(s)
As part of a current review of roles, responsibilities, and arrangements regarding the activities of the Transport Strategy Unit an assessment is being made of its role and the capacity and skills required to meet the role.	Tobyn Hughes (Managing Director Transport North East)
As the new JTC arrangements are embedded a review is to be made of the effectiveness of the support provided to the JTC to ensure they are adequate.	John Hewitt (NECA Finance Officer) Tobyn Hughes (Managing Director Transport North East) Mike Harding (NECA Monitoring Officer)

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<p>6 <u>Delivery of Transport Improvement Projects/Programmes</u></p> <p>Projects which are funded through the JTC are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 Poor project management. 2 Inaccurate assessment of projects costs when submitting funding bids. 3 Delays and costs for a project due to unforeseen events. 4 Insufficient capacity and skills to manage projects. 5 Fraud and corruption. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> 1 Transport projects may not be completed or have to be delayed or the size of project reduced e.g. quality, quantity which may results intended benefits not being realised and damage to the reputation of the JTC. 2 If the funding is not used by a deadline then funding may be lost. 3 Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other JTC plans. 	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The Managing Director, Transport North East and officers of the Transport Strategy Unit (TSU) have experience, skills and knowledge to submit strong bids for funding. They are familiar with the requirements needed for submitting bid and the process to go through. • All projects included in a bid are subject to scrutiny using the TSU’s ‘Transport Assurance Framework’ to ensure the proposed projects is in line with the JTC objectives and plans and meets the bid criteria. • Projects delivered by the JTC directly are managed using recognised project management principles. The TSU has the experience and skills to manage projects. • Where projects are delivered by the JTC’s partners e.g. Nexus, the JTC has arrangements in place to gain assurance that the projects are progressing as expected and where not, corrective actions are being taken to effectively manage the key issues e.g. regular reporting by partners. • Where transport projects are to be delivered by an external supplier then any work let is subject to a competitive procurement process. • Where funding is provided through the JTC to third parties to deliver a transport project all third parties have a funding agreement in place which includes the need for the third party to provide details as to progress regarding costs and progress of the project. JTC officers monitor progress on an ongoing basis. • Funding providers provide clear conditions as to the use of funds which is published to all relevant stakeholders. 	



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• JTC officers are subject to relevant codes of conduct	
Further Mitigating Actions	Lead Officer(s)
Monitoring of the delivery of the overall JTC programme of projects should be carried out on a regular basis.	Tobyn Hughes (Managing Director Transport North East)

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<p>7 <u>Transport Infrastructure Assets</u></p> <p>Transport assets, which are the responsibility of the JTC, are inadequately managed and maintained</p>	<p><u>Risk Owner</u> Head of Paid Service</p> <hr/> <p><u>Risk Score</u></p> <p style="background-color: #92d050; text-align: center;">Green 6</p> <p>Likelihood – Low 2 Impact – Significant 3</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 Lack of awareness of the existence of the asset. 2 Lack of clarity as to who has responsibility for the management and maintenance of the assets. 3 Lack of clarity as to standards required. 4 Lack of resources to maintain the assets. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> 1 Greater financial resources may be needed to rectify faults arising from poor maintenance. 2 Failures in transport infrastructure assets may affect services delivered to transport users leading to disruption and complaints and a drop in usage. If the funding is not used by a deadline then funding may be lost. 3 Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other JTC plans. 	
<p><u>Controls (already in place)</u></p> <ol style="list-style-type: none"> 1 JTC's constitution makes it clear it has overall responsibility and oversight for transport infrastructure assets owned by NECA and North of Tyne Combined Authority. 2 The JTC holds a record of assets it is responsible for. 3 Responsibility for the maintenance of assets and the standards required are included in the relevant agreements with third party providers e.g. TT2 Ltd. As part of the agreement reports need to be submitted to JTC to gain assurance the relevant maintenance is being carried out. 	
<p>Further Mitigating Actions</p> <p>As part of a current review of roles, responsibilities, and arrangements regarding the activities of the JTC and the Transport Strategy Unit an assessment is being made of the capacity and skills within the JTC to carry out its contract management responsibilities.</p>	<p>Lead Officer(s)</p> <p>Tobyn Hughes (Managing Director Transport North East)</p>

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<p>8 <u>Service Delivery</u> Inadequate arrangements are in place to ensure that adequate levels of public transport services, for which the JTC has oversight, are maintained by the JTC’s transport delivery partners.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Green 6</p>
	<p>Likelihood – Low 2 Impact – Significant 3</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 Lack of clarity as to the responsibilities and duties regarding the oversight of public transport services within the region. 2 Failure to appreciate the impact of maintaining adequate levels of transport services on the economic well-being and reputation of the region. 3 Lack of resources and/or expertise to put in place effective arrangements to ensure adequate levels of transport services are provided. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> 1 Loss of confidence by stakeholders, e.g. government in the JTC’s ability to meet its responsibilities. 2 Loss of confidence by users of services. 3 Without oversight by the JTC, public transport providers e.g. Nexus, may not provide the required services resulting in less use of public transport and greater congestion on the roads, which is contrary to the aims and objectives of the JTC. 	
<p><u>Controls (already in place)</u></p> <ol style="list-style-type: none"> 1 JTC’s constitution makes it clear it has overall responsibility and oversight for certain statutory public transport services. 2 JTC committees i.e. Leadership Board and Tyne Wear Sub Committee receive regular reports as to the level of public transport services provided by the JTC’s partners e.g. Nexus, Durham County Council, Northumberland County Council. 	
<p>Further Mitigating Actions</p> <p>An assessment needs to be made by the JTC of its arrangements to gain assurance that issues with transport service delivery causing poor service to the public faced by transport providers e.g. Nexus, are being addressed effectively.</p>	<p>Lead Officer(s)</p> <p>Tobyn Hughes (Managing Director Transport North East)</p>

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Appendix 3

Risk Analysis Toolkit

Determine the risk priority					
Impact					
Likelihood		Insignificant	Minor	Significant	Critical
	High	4	8	12	16
	Medium	3	6	9	12
	Low	2	4	6	8
	Negligible	1	2	3	4

Assess the likelihood of the risk event occurring	
High	Risk will almost certainly occur
Medium	Risk is likely to occur in most circumstances
Low	Risk may occur
Negligible	Risk is unlikely to occur

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopper	<ul style="list-style-type: none"> Over half the objectives/programmes affected More than one critical objective affected Partners do not commit to the Shared vision 	<ul style="list-style-type: none"> Significant change in partner services Relationship breakdown between major partners and stakeholders Serious impact on delivery of key transport related investment plans Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project Serious impact on public transport services provided to users 	<ul style="list-style-type: none"> Inability to secure or loss of significant transport funding opportunity (£5m) Significant financial loss in one or more partners (£2m) Significant adverse impact on transport budgets (£3m) 	<ul style="list-style-type: none"> Adverse national media attention External criticism (press) Significant change in confidence or satisfaction of stakeholders Significant loss of community confidence

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Significant	<ul style="list-style-type: none"> One or more objectives/programmes affected One or more partners do not commit to shared vision Significant environmental impact 	<ul style="list-style-type: none"> Partner unable to commit to joint arrangements Recoverable impact on delivery of key transport related investment plans Major project failure Impact on public transport services provided to users 	<ul style="list-style-type: none"> Prosecution Change in notable funding or loss of major transport funding opportunity (£2m) Notable change in a Partners contribution Notable adverse impact on transport budget (£0.5m-£1.5m) 	<ul style="list-style-type: none"> Notable external criticism Notable change in confidence or satisfaction Internal dispute between partners Adverse national/regional media attention Lack of partner consultation Significant change in community confidence
Minor	<ul style="list-style-type: none"> Less than 2 priority outcomes adversely affected Isolated serious injury/ill health Minor environmental impact 	<ul style="list-style-type: none"> Threatened loss of partner's commitment Minor impact on public transport services provided to users 	<ul style="list-style-type: none"> Minor financial loss in more than one partner Some/loss of transport funding or funding opportunity threatened 	<ul style="list-style-type: none"> Failure to reach agreement with individual partner Change in confidence or satisfaction Minor change in community confidence
Insignif.	<ul style="list-style-type: none"> Minor effect on priorities/service objectives Isolated minor injury/ill health No environmental impact 		<ul style="list-style-type: none"> Isolated/minor financial impact in a partner organisation 	

Glossary of Terms

RAG – Red/Amber/Green (denoting an assigned performance status)

Strategic Risk - relates to those factors that might have a significant effect on the successful delivery of the JTC's objectives, plans, policies and priorities.

Risk - A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities.



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Risk Appetite - The level of risk that an organisation is prepared to accept in pursuit of its objectives, and before action is deemed necessary to reduce the risk.

Risk Controls or Control Processes - are those actions and arrangements which are specifically identified to be taken to lower the impact of the risk or reduce the likelihood of the risk materialising, or both of these.

Risk Matrix - a graphical representation of the Risk Severity and the extent to which the Controls mitigate it.

Risk Owner - has overall responsibility for the management and reporting of the risk.

Lead Officer(s) – given delegated responsibility from the Risk Owner to take action and manage the risk through application of the appropriate risk controls and processes.

Risk Impact - indicates the potential seriousness should the risk materialise.

Risk Likelihood - indicates the chance of a risk materialising in the time period under consideration.

Risk Score - the product of the Impact score multiplied by the Likelihood score.