



North East Combined Authority, Audit and Standards Committee

Tuesday 4th December, 2018 at 10.00 am

Meeting to be held: Sunderland City Council, Civic Centre, Burdon Rd, Sunderland SR2 7DN

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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 Previous Meeting (part Inquorate) held on 30 July 2018** 1 - 8

4. **Dispensations under the Localism Act 2011** 9 - 16

5. **Annual Audit Letter 2017/18** 17 - 36

6. **Treasury Management 2018/19 Mid-Year Update** 37 - 44

7. **Budget Proposals 2019/20** 45 - 76

8. **Annual Governance Statement 2017/18 Progress Update and Assurance Framework to produce the 2018/19 Statement** 77 - 82

9. **Internal Audit Progress Report** 83 - 92

10. **Strategic Risk and Opportunities Register**

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11. **Date and Time of Next Meeting**

Tuesday 2 April 2019 at 10.00am in County Hall, Durham,

Contact Officer: Christine Patterson Tel: 0191 211 6156 E-mail:
christine.patterson@northeastca.gov.uk

To: All Members



Audit and Standards Committee

30 July 2018

(10.00 am - 11.55 am)

Meeting held North Tyneside Council, Quadrant, The Silverlink, Cobalt Business Park, NE27 0BY

Present:

Independent Members: M Scrimshaw (Chair) G Clark (Vice Chair)

Councillors: E Bell (Durham), M Swinburn (Northumberland), G Hobson (South Tyneside), P Stewart (Sunderland), G Stone (Reserve – Newcastle)

Also Present: Councillor B Kellet (Reserve – Durham)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor A Lower (Newcastle) and S Gardner (Independent).

2 DECLARATIONS OF INTEREST

None

3 CHAIRS ANNOUNCEMENT

The Chair advised that Agenda Item No. 6 – Statement of Accounts 2017-18 and Agenda Item No. 7 – External Auditors Report would be brought forward and discussed as the first item of business, pointing out that the two papers would be discussed together.

A brief discussion took place around whether there was a need to hold the September meeting. The Chief Finance Officer agreed to discuss with the Monitoring Officer whether there would be any business that would need to be discussed, and if there wasn't then he would arrange for the meeting to be cancelled.

The Chief Finance Officer provided a brief update on the timetable change around the North of Tyne Devolution proposals, highlighting that approval from Parliament was now likely to be in October 2018. If approval was granted at the end of October, it would result in the first meetings for the new/restructured Combined Authorities and the Joint Transport Committee taking place in November 2018.

4 **STATEMENT OF ACCOUNTS 2017/18 AND EXTERNAL AUDIT COMPLETION REPORT**

Submitted: Report by Interim Chief Finance Officer (previously circulated and a copy attached to official minutes), which presented the 2017/18 accounts for review by Audit and Standards Committee and the narrative report and statement of Accounts (circulated on a supplemental agenda in accordance with the provisions of the Local Government Act 1985), which invited the committee to comment and submit views to the Leadership Board scheduled to hold their meeting 31 July 2018.

Submitted: Report by External Auditor (circulated on a supplemental agenda in accordance with the provisions of the Local Government Act 1985), which summarised the audit conclusions for the year ended 31 March 2018.

The Chief Finance Officer introduced the report, highlighting the key areas, drawing the committee's attention to the adjustments to the financial statements. He explained that this year the preparation and audit of the Final Accounts had been brought forward by two months. This had compressed the time available to complete the work and to circulate the papers.

The External Auditor introduced the Audit completion report, drawing the committee's attention to the status of the audit work and highlighting the key areas. He stated that from an independent point of view, an unqualified opinion, without modification on the financial statements would be issued. He expressed his thanks to the accounting team for their assistance during the audit.

During discussions the following points were made:

- Concern was raised around the number of outstanding adjustments yet to be made to the accounts and the reasons why it had been so complex. It was confirmed that these were not material. The production of the Group Accounts had been even more complex this year due to the changes in the accounts for the new NEMOL company being made into the Nexus Group Accounts, which then needed to be included in the NECA group accounts.
- Clarification was provided on the decision-making process that resulted in a grant to Newcastle International Airport for advertising and marketing and the reasons for the adjustment to the phasing of the accounting for the payment over time.
- Reference was made to why there was two separate entries for the officers' remuneration salaries. It was explained that the two entries were required to differentiate between the statutory officer positions from other officers. Entries included information about contractors as well as direct employees to provide transparency.
- It was explained that the variations in the amount of Enterprise Zone business rate income received each year, was due to the impact of business rate appeals and resulting backdated payments.
- A query was raised about the soft loan provided to Durham University. The Chief Finance Officer agreed to send a written response providing details.

- Clarification was given about the soft loan in 2016/17 for the refurbishment of 'The Jesmond' which was to create office space for SME businesses. The LEP now had added security of a first charge on this building
- A query was raised about the capital expenditure on the skills thematic area and the reasons for this being only £2.3m. The committee was informed that this was the agreed support to specific capital projects this year and that the figures varied from year to year and had been higher in previous years. The core revenue skills budget was not part of the NECA accounts. Should additional finance come on stream for the skills thematic area in future years then this would be reflected in the accounts for those years.
- A query was raised about the substantial increase in pensions costs between 2016/17 and 2017/18. The Chief Finance Officer confirmed that this was because of NEMOL employees being transferred to NEXUS establishment in 2017/18. It was agreed that an explanation be included in the narrative of the accounts under the heading - *Transactions relating to post-employment benefits*, to highlight the reason why there was a substantial increase.
- A query was raised about the difference in the actuarial gains/(losses) on liabilities – financial assumptions within the funding liabilities: Local Government Pension Scheme. The Chief Finance Officer and the External Audit pointed out the value of assets varied from year depending on a range of factors including movements in the value of stocks and shares and any changes in the assumptions used by the actuaries. The NECA pension scheme was in a surplus position at the year end.

(The External Auditor left the meeting).

(Councillor B Kellet, reserve member Durham left the meeting).

(A five-minute comfort break was taken).

- The Chief Finance Officer explained that due to the complexity of the group accounts this year and the tight timescales for completing the accounts, officers were discussing the lessons learned with the External Auditor for the closedown process for the 2018/19 accounts, which would be more complex. As a result, he indicated that he would be discussing with the Audit, Risk and Insurance Manager the implementation of internal quality checks to support the accounting process for future years.
- A suggestion was made that in future, a draft statement of accounts should be circulated at end of May to enable members to review; raise questions or seek clarification prior to the account sign off meeting. The Chief Finance Officer agreed to undertake this.
- The Chief Finance Officer explained that although the External Auditor had not mentioned it, management had agreed that the officer declaration of interest should be updated annually as part of the Annual Governance Statement.

The committee expressed their thanks and appreciation to the officers and External Auditors for closing the accounts 2-months earlier.

In concluding, the Chief Finance Officer explained that a process assessment meeting was to be scheduled with the External Auditors and an update would be given at the December meeting. He confirmed that planning was already underway

around the process for preparing the accounts for 2018/19 light of the in-year changes around devolution.

RESOLVED –

- i. That the External Auditor's report be noted.
- ii. That in line with the identified adjustments highlighted the Statement of Accounts for 2017/18 be presented to the Leadership Board for approval.

5 MINUTES OF GOVERNANCE COMMITTEE HELD ON 3 APRIL 2018

RESOLVED – That the Minutes of Governance Committee held on 3 April 2018 were agreed as a correct record and were signed by the Chair.

Matters Arising:

- i. Rebranding of the committee – The Chair provided clarification to a new member around the rebranding of the committee from Governance to Audit and Standards.
- ii. Minute 40 – North of Tyne Governance Update – A member raised concern about reduced oversight of NEXUS issues. The Chair providing assurance that concerns had already been raised but it was envisaged that the new joint transport arrangements would strengthen matters moving forward.
- iii. Minute 42 – Draft Annual Governance Statement 2017/18 – A member enquired as to whether the briefing session by the Managing Director (NEXUS) on the decision making/governance arrangements for Transport for the North had been scheduled yet. It was explained that it had not but that the Managing Director (NEXUS) was to be invited to the December meeting.
- iv. Minute 46 – Date and Time of Meetings 2018-19 – The committee was advised that the provisional dates listed had been confirmed at the NECA Annual General Meeting. It was agreed that unless there was business to be discussed in September, the meeting would be cancelled.

6 CONSTITUTIONAL CHANGES PROPOSED TO LEADERSHIP BOARD – FEEDBACK REPORT

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

In the absence of the Monitoring Officer, the Chief Finance Officer provided feedback on the proposed changes to the NECA Constitution discussed by members on 3 April 2018 and decided by the Leadership Board on 19 June 2018.

The Chief Finance Officer reminded the committee about the timetable change around the North of Tyne Devolution proposals.

RESOLVED – That the report be noted.

7 **GENERAL DATA PROTECTION REGULATION (GDPR) AND NECA'S INFORMATION GOVERNANCE POLICY - UPDATE**

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

In the absence of the Monitoring Officer, the Chief Finance Officer provided an update of the changes that were implemented as part of the NECA's General Data Protection Regulation (GDPR) readiness project.

The Audit, Risk and Insurance Manager appraised the committee on a couple of incidents, which were confirmed as small scale resulting from increased awareness and training of staff around GDPR. The lessons learned were fed back to the individuals concerned and generic information would be shared as part of awareness training. During discussions, he confirmed that training and guidance had proven useful and would continue; Freedom of Information (FOI) requests would continue to run alongside GDPR as had always happened as both existed under different legislation and as a result of concerns raised, agreed that Combined Authority Officers should be reminded to use 'best practice' established for sending emails e.g. BCC recipients.

A discussion took place on the transition arrangements and measures that needed to be put into place to support the Combined Authority and North of Tyne Mayoral Combined Authority. It was confirmed that work on this was currently being progressed. The committee was informed that key decisions at high level still needed to be taken before structures and support could be put in place.

The committee requested that information on data breach incidents should be shared with the committee moving forward.

(Councillor P Stewart left the meeting)

(At this point, the meeting became inquorate; however, it was agreed to continue and deal with the remainder of the business listed on the agenda).

Clarification was provided on privacy cookies and fair processing policy.

A brief discussion took place about the transfer and retention of data when the North of Tyne Mayoral Combined Authority was established, and the work required on this in moving forward.

RECOMMENDATION – That the report be noted.

8 **INTERNAL AUDIT PROGRESS REPORT AND ANNUAL REPORT**

Submitted: Report by Audit, Risk and Insurance Manager (previously circulated and a copy attached to official minutes), which provided Members with a summary of the outcomes from the delivery of the 2017/18 internal audit plan; information on the implementation of audit recommendations; progress against the delivery of the 2017/18 internal audit plan. The Audit, Risk and Insurance Service Manager's

Opinion, required by the Public Sector Internal Audit Standard (PSIAS) 2013 on the overall adequacy and effectiveness of NECA's governance, risk and control framework during 2017/18 was that it was effective and provided a substantial level of assurance.

Confirmation was provided that the service level agreements for several functions were being formalised for NECA.

In responding to questions raised about the scheme of delegation which was being established to address the issues of procurement thresholds, the Chief Finance Officer agreed to circulate a copy of the scheme when it was submitted to the Leadership Board for approval.

RECOMMENDED – That the committee considered the annual opinion of the Audit, Risk and Insurance Service Manager on NECA's control environment in 2017/18 and noted the internal audit activity undertaken during 2017/18.

9 **ANNUAL GOVERNANCE STATEMENT 2017/18**

Submitted: Report by Audit, Risk and Insurance Manager (previously circulated and a copy attached to official minutes), which provided details on the final 2017/18 Annual Governance Statement (AGS) for Members to consider and include in the annual accounts.

The Audit, Risk and Insurance Manager advised the committee that the draft Statement was agreed at the April Audit and Standards Committee (previously Governance Committee), and there had been no significant weaknesses identified since its approval. However, there had been an additional area identified as requiring improvement, around the governance and management of the Tyne Tunnels. Areas requiring improvement were included within Appendix A of the Statement. Since the April Audit and Standards Committee, the Governance Framework (section 3 of the AGS) had been updated to reflect the principles of the latest CIPFA delivering good governance framework guidance. The changes to the core principle descriptions had not altered the outcomes noted against them or impacted upon the assurance framework Members reviewed at the last meeting. He highlighted that prior to submission to the Leadership Board the Annual Governance Statement would need to be amended to take account of the change from September to Autumn in the North of Tyne Devolution proposals in Section 5 of the report.

RECOMMENDED – That the committee:

- i. Acknowledged the additional area requiring improvement (Appendix A of AGS).
- ii. Agreed the Annual Governance Statement for inclusion in the annual accounts and recommended it for signature by the Vice Chair of the North East Combined Authority and Head of Paid Service. The Annual Governance Statement was at Appendix 1.

10 STRATEGIC RISK AND OPPORTUNITIES REGISTER

Submitted: Report by Audit, Risk and Insurance Manager (previously circulated and a copy attached to official minutes), which provided members with an update of the Strategic Risks for the North East Combined Authority.

The Chief Finance Officer responded to questions raised, confirming that the Combined Authority had unanimously signed off on the creation of the North of Tyne Mayoral Combined Authority; explaining that a programme had not yet been established post 2020 in relation to European Funding but the local authorities and the LEP were continuing to monitor the Brexit proposals and lobby ministers; and agreed to share information with the committee from the Government's report on the review of the role and scope of LEP activity.

RECOMMENDED – That the committee reviewed the outcome of the strategic risk review and noted the information.

11 DATE AND TIME OF NEXT MEETING

Lead Officers to determine if there was a need to hold the 4 September 2018 meeting. If there was no business to be discussed, the meeting was to be cancelled.

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Audit and Standards Committee

Date: 4 December 2018

Subject: Dispensations under the Localism Act 2011

Report of: Monitoring Officer

Executive Summary

The purpose of this report is to invite the Committee to grant dispensations to the Members and Substitute Members of the NECA Leadership Board in relation to directorships they hold as a result of their offices within their relevant Constituent Authority.

The report also invites the Committee to agree a process for granting dispensations between meetings, specifically to allow the granting of dispensations and renewals of dispensations by the Monitoring Officer when they are in accordance with the parameters agreed by the Committee or when it is impracticable for the Committee to consider the matter before the conflict of interest arises.

Recommendations

The Audit and Standards Committee is recommended to:

- i. Consider the request for dispensations received from the following Members and Substitute Members of the Leadership Board and the North East Joint Transport Committee (to be circulated as a supplemental appendix to this paper).
- ii. Authorise the Monitoring Officer to issue a Certificate of Dispensation to the Members concerned where a dispensation is granted.
- iii. Delegate authority to the Monitoring Officer to determine dispensations for Members of the Leadership Board and its committees or sub-committees to grant dispensations or renewals of dispensations (and issue Certificates of Dispensation) when they are in accordance with the parameters determined by this Committee (as set out in section 2.7 of this report).
- iv. The Monitoring Officer must report the use of the delegation given in resolution (iii) as soon as possible to the Chair of the Audit and Standards Committee and to the Committee at its next meeting. The Committee can chose to confirm, terminate or amend any dispensation given under this delegation.

Audit and Standards Committee

1. Background Information

- 1.1 The Localism Act 2011 sets out responsibilities for the declaration and recording of Members' interests. By Section 31(4) of the Localism Act 2011 a Member with a pecuniary interest may not participate or vote in relation to any matter in which they are interested. The procedures are set out in NECA's Code of Conduct for Members. Interests may relate to any item of business considered at a NECA meeting and may mean that a Member is required to declare an interest in an item of business and leave the meeting. Obviously, having left the meeting, they cannot count towards the meeting's quorum.
- 1.2 The Localism Act 2011 introduced a more generous regime for dispensations to that which existed under previous arrangements. Such dispensations allow a member to participate in a meeting dealing with a matter in which they have a registerable interest provided an appropriate dispensation has been given. By Annex 4 to Part 6.1 of the North East Combined Authority ('NECA' or the 'Authority') Constitution, the Audit and Standards Committee holds a delegation from the Leadership Board to consider and grant dispensations under Section 33 of the Localism Act 2011. If a dispensation is granted a Member may participate and vote in relation to a decision, notwithstanding the declared pecuniary interest.
- 1.3 On 27 February 2015, the then Governance Committee considered a paper (first presented on 9 December 2014) in relation to the granting of dispensations in favour of members of the Leadership Board who, for example, are also members of the Newcastle International Airport Limited Board ('NIAL') and in doing so also granted delegated authority to the Monitoring Officer to grant dispensations when requests are not received in time for consideration by the Committee.
- 1.4 It is noted that the Code of Conduct for Members includes pre-existing dispensations in relation to the matters listed below but these are not areas that are likely to be considered by the Leadership Board or Members of the Constituent Authorities, save perhaps, for indemnities to Members and the setting of the annual precept. The pre-existing dispensations are:
- Housing;
 - School meals or transport;
 - Statutory sick pay;
 - An allowance, payment or indemnity given to Members;
 - Any ceremonial honour given to Members; and
 - Setting the Council Tax or precept.
- 1.5 By the Newcastle Upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018, the boundaries of NECA were changed and the new Combined Authority for the local government areas of Newcastle, North Tyneside and Northumberland was formed. The Leadership Board for the North East Combined Authority met for the first time following the

Audit and Standards Committee

making of the Order on 13 November 2018. This meeting confirmed the Members and Substitute Members of the Leadership Board and the North East Joint Transport Committee.

- 1.6 Section 33 of the Localism Act 2011 is set out in full in the appendix of this paper. It makes it clear that following a written request, the Authority may grant a dispensation only if, after having had regard to all relevant circumstances, the authority:
- a) considers that without the dispensation the number of persons prohibited by section 31(4) from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business,
 - b) considers that without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business,
 - c) considers that granting the dispensation is in the interests of persons living in the authority's area,
 - d) [not applicable to NECA] or
 - e) considers that it is otherwise appropriate to grant a dispensation.

1.7 Dispensations should be granted for a defined period not exceeding four years.

2 Proposals

- 2.1 In the past, dispensations have been granted where, for example, a Member holds a directorship as a consequence of their office with the relevant constituent authority. For example, each Leader is a member of the Newcastle International Airport Limited Board. The Audit and Standards Committee (then the Governance Committee) has granted dispensations for a period of two years, renewable at the end of that period.
- 2.2 It is also noted that constituent authorities themselves, or bodies for which they are responsible, (for example the Port of Sunderland, a Sunderland City Council controlled company), may be recipients of grant funding in relation to North East Local Enterprise Partnership or Regional Transport projects. Dispensations have been granted to permit Members to participate and vote notwithstanding such interests.
- 2.3 As the Leadership Board was re-constituted on 13 November 2018, it is considered appropriate that the Committee reconsider the arrangements for dispensations.

Audit and Standards Committee

- 2.4 The Committee has previously determined that there are adequate grounds under Section 33(2)(c) (*considers that granting the dispensation is in the interests of persons living in the authority's area*) and (e) (*considers that it is otherwise appropriate to grant a dispensation*) to grant dispensations for two years.
- 2.5 The dispensations are of assistance because they support effective decision-making. The quorum for the Leadership Board is 3 out of 5 Members, the quorum for the North East Joint Transport Committee is 4 out of 7 Members and the quorum for Tyne and Wear Sub-Committee is high at 4 out of 5 Members. Noting a Member's obligation to their electorate and the organisations on which they participate as a consequence of their role with the authority, it is considered appropriate that Members should be able to support projects which are in the best interests of their constituents or the organisations they represent. It would be unfortunate if, for example, a project could not proceed because of the inability for the representative to participate or vote.
- 2.6 The nature of the grant process means that it is not possible to accurately predict when a project will come forward for approval or whether the relevant Member or Substitute Member will participate in the approval meeting. For these reasons it is considered advantageous to delegate authority to the Monitoring Officer to grant temporary dispensations where the Monitoring Officer believes the grounds set out in Section 33 of the Localism Act 2011 are met. This will allow flexibility to support effective decision making.
- 2.7 It is proposed that any delegation given to the Monitoring Officer may only be exercised within the following parameters:
- a. It is considered to be impracticable for the prior approval of the Audit and Standards Committee to be obtained.
 - b. The dispensation given should be for a temporary period of months sufficient only to deal with the immediate needs of decision making with the substantive matter of a longer dispensation to be considered fully by a future meeting of the Audit and Standards Committee.
 - c. The use of the delegation to grant a dispensation does not bind the future decision making of the Audit and Standards Committee.
 - d. That the use of the delegation should be reported to the Chair of the Audit and Standards Committee as soon as possible and to the Audit and Standards Committee itself at its next meeting.

3. Reasons for the Proposals

- 3.1 The decision will:
- a. Support the proper functioning of the Leadership Board, its committees and the authority's governance and respect for the statutory requirements;

Audit and Standards Committee

- b. Provide parity of participation of all Authority Members and Substitute Members of the Leadership Board (and Members of committees and sub-committees and Substitutes).

4. Alternative Options Available

- 4.1 Not to grant dispensation or to make alternative decisions in relation to dispensations or the proposed delegation of authority.

5. Next Steps and Timetable for Implementation

- 5.1 Certificates of Dispensation will be issued by the Monitoring Officer if dispensations are approved. The delegation will be effective immediately and will remain in force until varied or terminated by the Audit and Standards Committee

6. Potential Impact on Objectives

- 6.1 The issue of dispensations relates to the good governance of the Authority and its decision-making.

7. Financial and Other Resources Implications

- 7.1 There are no specific financial implications arising in relation to this report.

8. Legal Implications

- 8.1 Where a written request for a dispensation is submitted by a Member to the Monitoring Officer, the Audit and Standards Committee may grant a dispensation to enable a Member to participate or, participate and vote, where they have an interest in an item which would otherwise require them to leave the meeting. The power to grant such dispensations is contained within the Localism Act 2011.

9. Key Risks

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

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

- 12.1 Chief Officers have been consulted on the paper. Chief Legal Officers have been requested to renew dispensation requests through their Member's offices.

Audit and Standards Committee

13. Other Impact of the Proposals

13.1 None.

14. Appendices

14.1 Extract from Section 33 of the Localism Act 2011.

15. Background Papers

15.1 Governance Committee paper “Request for Dispensation” dated 9 December 2014, considered by that committee on 27 February 2015.

Localism Act 2011

NECA Constitution

16. Contact Officers

16.1 Peter Judge, Monitoring Officer

Tel: 0191 338 7455

Email: peter.judge@northeastca.gov.uk

17. Sign off

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

18. Glossary

18.1 Authority – North East Combined Authority

NECA – North East Combined Authority

NIAL – Newcastle International Airport Limited

Audit and Standards Committee

APPENDIX

Extract from Section 33 of the Localism Act 2011

The relevant authority may, on a written request made to the proper officer of the authority by a member or co-opted member of the authority, grant a dispensation relieving the member or co-opted member from either or both of the restrictions in section 31(4) in cases described in the dispensation.

A relevant authority may grant a dispensation under this section only if, after having had regard to all relevant circumstances, the authority—

- a. considers that without the dispensation the number of persons prohibited by section 31(4) from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business,
- b. considers that without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business,
- c. considers that granting the dispensation is in the interests of persons living in the authority's area,
- d. if it is an authority to which Part 1A of the Local Government Act 2000 applies and is operating executive arrangements, considers that without the dispensation each member of the authority's executive would be prohibited by section 31(4) from participating in any particular business to be transacted by the authority's executive, or
- e. considers that it is otherwise appropriate to grant a dispensation.

A dispensation under this section must specify the period for which it has effect, and the period specified may not exceed four years.

Section 31(4) does not apply in relation to anything done for the purpose of deciding whether to grant a dispensation under this section.

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Audit and Standards Committee

Date: 4 December 2018

Subject: Annual Audit Letter 2017/18

Report of: External Auditor

Executive Summary

The purpose of this report is to present the Annual Audit Letter for 2017/18.

Recommendations

The Audit and Standards Committee is recommended to receive the report for information.

Audit and Standards Committee

1. Background Information

- 1.1 The purpose of this report is to present the Annual Audit Letter for 2017/18, which is the final reporting requirement in relation to the audit of the 2017/18 accounts.

2 Proposals

- 2.1 The Annual Audit Letter published as Appendix 1 with this report sets out the findings and conclusion of the audit of the North East Combined Authority accounts for 2017/18.

Appendix 2 presents a letter from the External Auditor confirming that an additional fee will be charged in relation to the 2017/18 Audit, where extra work was required to ensure the opinion on the 2017/18 accounts was given by the earlier deadline of 31 July 2018.

3. Reasons for the Proposals

- 3.1 The Annual Audit Letter is presented to Audit and Standards Committee for information, as required under the terms of reference.

4. Alternative Options Available

- 4.1 The report is for information, with no decision required.

5. Next Steps and Timetable for Implementation

- 5.1 NECA finance officers are engaging with the auditors in relation to planning for the 2018/19 accounts closedown.

6. Potential Impact on Objectives

- 6.1 This report is for information and has no impact on objectives.

7. Financial and Other Resources Implications

- 7.1 The letter from the External Auditor refers to the fact there may be a variation to the audit fee to reflect extra work which was required during the 2017/18 audit, and the additional letter attached as Appendix 2 confirms that an additional fee of £2000 will be charged. This is considered to be good value for money and can be accommodated within existing budgets.

8. Legal Implications

- 8.1 There are no legal implications arising from this report.

9. Key Risks

Audit and Standards Committee

9.1 There are no risk management implications arising from this report. Key audit risks in relation to the accounts are considered in the letter.

10. Equality and Diversity

10.1 There are no equalities 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 annual accounts were subject to a public inspection period from 1 June to 12 July 2018, with no objections raised or enquiries made.

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 – Annual Audit Letter 2017/18
Appendix 2 – NECA 2017/18 Audit – Additional Fee letter

15. Background Papers

15.1 None

16. Contact Officers

16.1 Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk,
0191 277 7518

17. Sign off

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

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Annual Audit Letter

North East Combined Authority

Year ending 31 March 2018





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the North East Combined Authority (the Authority) for the year ended 31 March 2018. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2018 included our opinion that the financial statements:</p> <ul style="list-style-type: none">gave a true and fair view of the Authority's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; andhad been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2018 included our opinion that the other information in the Statement of Accounts was consistent with the audited financial statements.</p>
Value for Money conclusion	<p>Our auditor's report concluded that we were satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 1 August 2018 we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2018 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality was based on 2% of Gross Revenue Expenditure.	£3.881 million Authority £6.411 million Group
Trivial threshold	Our trivial threshold was based on 3% of financial statement materiality.	£116,000 Authority £192,000 Group
Specific materiality	We have applied a lower level of materiality to the following area of the accounts: - Related Parties	10% of the disclosed values

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls (relevant to single entity and group accounts)</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed the management override of controls risk through performing audit work over the:</p> <ul style="list-style-type: none"> • reviewing of material accounting estimates, which may have been subject to management bias, included in the financial statements; • considering and reviewing unusual or significant transactions outside the normal course of business; and • testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to the Authority's attention.</p>
<p>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)</p> <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> • cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and • grant income being recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met 	<p>We addressed the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"> • the design and implementation of controls management had in place to ensure income was recognised in the correct period; • cash receipts around the year end to ensure they had been recognised in the right year; • the judgements made by management in determining when grant income was recognised; and • for major grant income, obtaining counterparty confirmation. 	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to the Authority's attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> evaluating the management controls you had in place to assess the reasonableness of the figures provided by the Actuary; and considering the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. <p>We discussed with key contacts significant changes to the pension estimates prior to the preparation of the financial statements.</p>	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to the Authority's attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	Related party declarations should be updated and obtained annually from senior officers.
Potential effects	Related parties may not be identified which potentially may lead to fraud and error.
Recommendation	Ensure that related party declarations are completed and received annually
Management response	Senior Officer declarations of interests have been provided and have been updated onto a new format. These will be updated as any interests change during the year and updated annually as part of the work to update the Annual Governance Statement

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency	Service level agreement with Newcastle City Council in respect of ICT services was not up to date.
Potential effects	SLA should be up to date to ensure appropriate services are provided to the NECA.
Management response	The ICT SLA for 2017/18 was updated and signed. Work is ongoing to review and refresh all of the SLA arrangements for 2018/19 and this is intended to take into account changes in services resulting from new devolution arrangements in 2018/19.

Significant matters discussed with management

Our audit work identified a significant number of amendments to the draft accounts. These amendments resulted in a significant amount of additional work for us in auditing each amended set of accounts, obtaining revised working papers and supporting evidence.

In previous years we have highlighted the need improve quality assurance processes and also to review the level of staffing support allocated to the Principal Accountant. In our view these issues remain key areas for improvement.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making.
- Sustainable resource deployment.
- Working with partners and other third parties.

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified a significant Value for Money risk.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The North East Leadership Board (NELB) is made up of the Leaders of the seven constituent bodies. The NELB is supplemented by elected members who serve on a number of committees along with non-executives.</p> <p>There is an update to date Constitution in place which is available on the website.</p> <p>NELB receive appropriate and regular reports on the financial position of the Authority.</p> <p>Helen Golightly, the Head of Paid Service and Chief Executive leads a very experienced senior officer team at the Authority.</p> <p>Risk management arrangements along with an up to date risk register is in place. A risk update is reported regularly to Governance Committee (now Audit and Standards Committee), who provide challenge in this area.</p> <p>An annual governance statement is prepared, reviewed and approved before being included in the financial statements.</p> <p>No indicators of inappropriate governance arrangements.</p>	Yes

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified
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Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The 2017/18 revenue budget and capital programme was approved by the NELB in January 2018.</p> <p>The Authority has a history of achieving financial targets as evidenced by financial and performance reports.</p> <p>Arrangements are in place for the Financial Plan to be updated as appropriate.</p> <p>The 2017/18 Outturn position, which will be reported to Audit and Standards Committee (previously named Governance Committee) on 30 July 2018 identifies an underspend of £3.498 million at the year end.</p> <p>Relevant HR policies and procedures in place.</p>	Yes
Working with partners and other third parties	<p>A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008.</p> <p>The Authority works very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area.</p> <p>The Authority supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities.</p> <p>The NELEP board includes representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven Authority councils are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB.</p> <p>The Authority provides the formal accountability arrangements for the enterprise partnership.</p> <p>On 26th April 2018, the NELB agreed in principle to the Government making the requisite Order, which will allow the three authorities North of Tyne (Newcastle, North Tyneside and Northumberland) to withdraw from the Authority in order to create a new mayoral combined authority for the North of Tyne area, and also to maintain governance arrangements for transport across all seven councils.</p>	Yes

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Authority which must be responded to publically.

We have not exercised any of these statutory reporting powers.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 1 August 2018.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the other information in the Statement of Accounts was consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in April 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice*	£24,298	TBC

* We are awaiting approval from PSAA for the variation to the scale fee.

Our final fee is expected to be higher than the scale fee set by PSAA due to the additional work required in relation to the audit of the financial statements. Discussions have been held with PSAA and we are awaiting approval of our variation request.

Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.

6. FORWARD LOOK

Financial outlook and Operational challenges

The Authority has a number of financial and operational challenges over the medium term which will need to be carefully managed. Examples of these are:

- Continuing to maximise European funding and the replacement of Europe regional funding following Brexit for the North East.
- The proposed Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority Order 2018 was laid in the Houses of Parliament on 24th July 2018 and is expected to be formally approved and enacted by the end of 2018. This will reduce the membership of NECA to the four authorities on the south side of the Tyne. In addition, a new North of Tyne Combined Authority with an elected Mayor will be established along with a new Transport Joint Committee which will cover the current Authority footprint.

How we will work with the Authority

We will focus our 2018/19 audit on the risks that the above challenges present to the Authority's financial statements and ability to maintain proper arrangements for securing value for money. We will also share with the Authority and appropriate staff relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

We will have a 'lessons learnt' session with the finance team to carry out a review of the 2017/18 earlier deadline and identify areas that could be done better and quicker

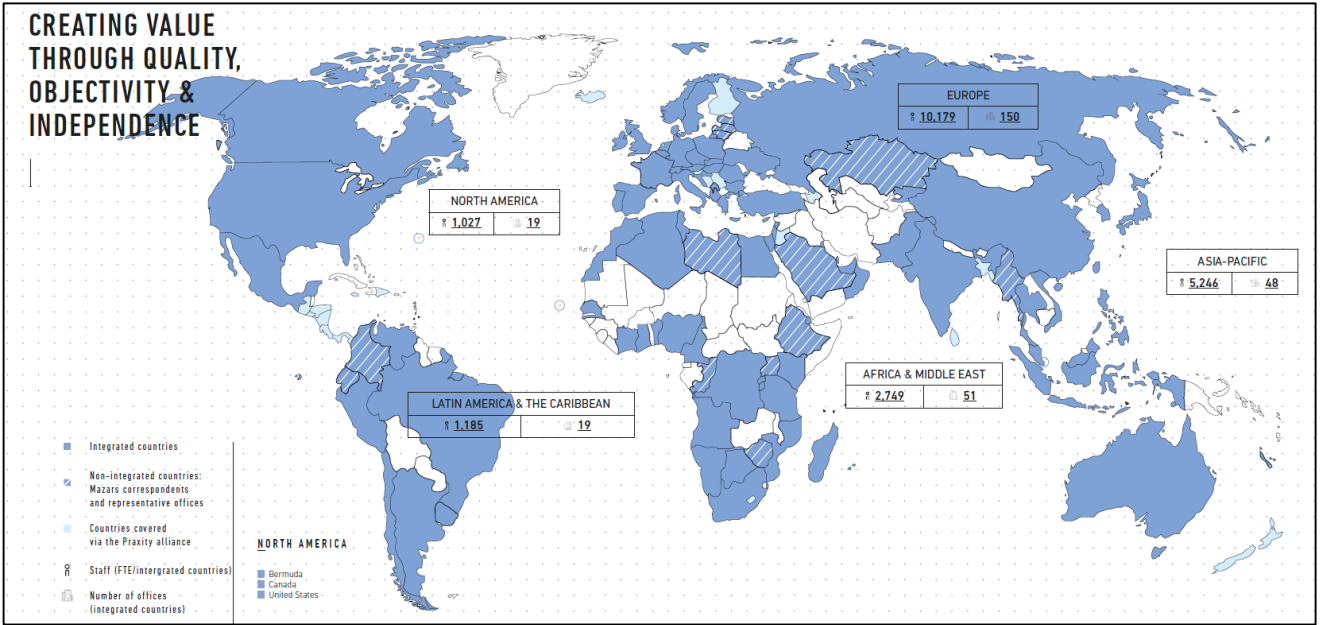
In terms of the technical challenges that the finance team face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

MAZARS AT A GLANCE

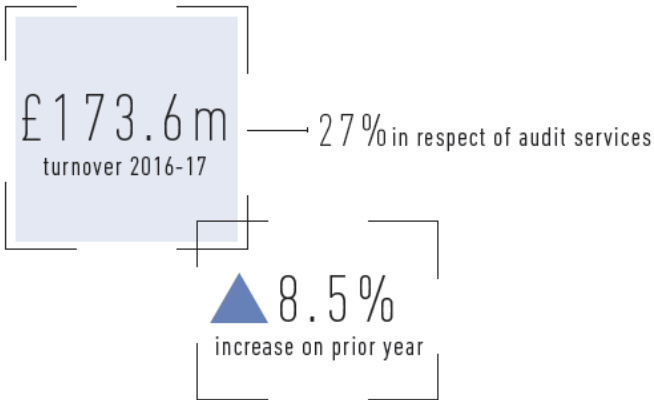
Mazars LLP

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- Over 86 countries and territories
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Mazars Internationally



Mazars in the UK



As at 31 August 2017

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Direct line +44 (0)191 383 6314
Email cameron.waddell@mazars.co.uk

20 November 2018

NECA 2017/2018 Audit – Additional Fee

In our Follow Up letter, dated 31 July 2018, we referred to the considerable amount of additional audit work that was required to ensure the opinion on the 2017/18 accounts was given by the deadline of 31 July 2018.

In addition, insufficient staffing capacity at NECA resulted in a number of audit queries not being responded to in a timely manner. We have raised this issue in previous years and officers accept this as a contributing factor and are looking to ensure this issue is addressed as part of the 2018/19 closedown process.

The additional work carried out by us has resulted in an additional fee of £2,000.

If you wish to discuss this further then please do not hesitate to contact me.

Yours sincerely



Cameron Waddell, Partner
For and on behalf of Mazars LLP

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Audit and Standards Committee

Date: 4 December 2018

Subject: Treasury Management Mid-Year Review 2018/19

Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to provide a summary of Treasury Management activity during 2018/19 to date. Updates are provided on borrowing and investing activity. Interest payments and receipts are in line with the original budget for the year and no changes are proposed to the current list of investment counter-parties.

Recommendations

The Audit and Standards Committee is recommended to receive the report for information.

Audit and Standards Committee

1. Background Information

- 1.1 In line with the CIPFA Code of Practice on Treasury Management in the Public Services, the Authority is required to approve a treasury management strategy (including a range of prudential indicators) before the start of each financial year and to monitor/report performance during the year (with a mid-year review).
- 1.2 All NECA External borrowing relates to historic Tyne and Wear Transport activities. While the Joint Transport Committee (JTC) has an advisory role in connection with the borrowing limits relating to transport, the Treasury Management arrangements will be managed by NECA as the accountable body for the JTC. Plans relating to borrowing will be approved by the two combined authorities, and a proportion of the outstanding balance of loans and investments relating to Transport activities will be shown in the balance sheets of the two combined authorities in their annual accounts. It may be necessary for individual loan agreements with lenders to be amended to reflect the new arrangements for the share of liabilities between the two authorities.
- 1.3 A summary of the estimated capital financing requirement (CFR) and external loans outstanding at the date of the change in governance is set out in table 1 below. For the remainder of the report, figures relate to the totality of borrowing, including both the NECA and North of Tyne Combined Authority (NTCA) share. External borrowing is less than the CFR due to the use of internal funds instead of more expensive borrowing.

Table 1: Transport (Tyne and Wear) outstanding debt and capital financing requirement at 2 November 2018.

	Principal	Interest	Total	NECA Share	NTCA Share
	£m	£m	£m	£m	£m
CFR	193.665	n/a	193.665	107.883	85.782
External Debt	167.333	2.274	169.607	94.482	75.125

Audit and Standards Committee

2 Proposals

Borrowing

- 2.1 External interest rates payable in the first six months of 2018/19 were at the level assumed in the treasury management strategy, with a weighted average rate of 4.3%. All borrowing currently relates to Transport activity in Tyne and Wear (borrowing taken out by the former Tyne and Wear Integrated Transport Authority) and the costs of this borrowing are charged to the Tyne and Wear Transport levy budget, the Tyne Tunnels budget and the Nexus budget as appropriate.
- 2.2 No new loans have been taken out during the year. The table below shows the movement between the opening and closing level of external loans during 2018/19. External loans were £167.333m at 30 September, which is well within the NECA authorised borrowing limit of £240m. NECA has been approached by one of its lenders in relation to the new arrangements between NECA and NTCA, and it may be necessary for individual loan agreements with lenders to be amended to reflect the new arrangements for the share of liabilities between the two authorities.

Table 2: Movement in External Loans 2018/19

	Actual	Authorised Limit
	£m	£m
Level of external loan principal at 1 April 2018	167.667	240.000
New loans taken out during 2018/19	-	-
Scheduled repayments during 2018/19	0.333	-
Early repayment of borrowing during 2018/19	-	-
Level of external loan principal at 30 September 2018	167.333	240.000

- 2.3 As can be seen from the above table, the overall level of borrowing has decreased to £167.333m in the first six months of the year. This is due to regular repayments on Equal Instalment of Principal (EIP) loans. This level of borrowing is well within the authorised limit for the year, as the Authority has used internal funds in place of external borrowing to part fund its capital financing requirement. The authorised limit has been retained at a consistent level despite repayment of external borrowing, to allow the flexibility to undertake external borrowing if required.
- 2.4 The Authority strives to minimise the interest rate risk it faces and maintain stability by seeking to maintain an appropriate debt maturity profile (i.e. the profile of when external loans need to be repaid), which is shown in Table 3 below.

Audit and Standards Committee

Table 3: External Debt Maturity Profile

Loan principal repayable:	01/04/2018 (actual) £m	30/09/2018 (actual) £m	31/03/2019 (estimate) £m
In less than one year	0.667	0.667	0.667
Between one and two years	0.667	0.667	0.667
Between two and five years	2.000	2.000	2.000
Between five and ten years	2.333	2.000	1.667
In more than ten years	162.000	162.000	162.000
Total	167.667	167.333	167.000

- 2.5 As can be seen from the above table, the profile is weighted heavily towards long-term borrowing. This is because most of the borrowing relates to the New Tyne Crossing Project, where long-term borrowing was preferable to provide certainty of payments to enable accurate financial modelling over the period of the operating concession. As short-term loans have matured, they have not been replaced.
- 2.6 The current average rate of external interest payable (i.e. 4.3%) is in line with the assumptions made when the 2018/19 budget was set and total external interest charges to the year-end will be within budget.

Investments

- 2.7 At 30 September 2018 the Authority had £65m externally invested in short term deposits, plus short term bank current account balances not exceeding £10m. This is expected to fall to around £40m at the year end as grant payments received in advance of expenditure (e.g. Local Growth Fund) are paid out to delivery partners.
- 2.8 For 2018/19 the rate of external interest receivable ranges from 0.4% on short term balances to 1.1% on external investments held for up to 12 months. Investment of cash balances are placed for up to 12 months where possible in order to help secure an increased average rate of return, with increased interest income used to help fund the costs of the Authority.
- 2.9 The primary objective of the Authority's investment strategy is to ensure the security of funds invested and to achieve a reasonable rate of return commensurate with the level of security required. No changes are currently proposed to the approved counterparties, and this will be reviewed in advance of the preparation of the 2019/20 Treasury Management and Investment Strategy. One likely change will be to include a financial and time limit in relation to the new NTCA, which may be required in order to manage cash flows between the authorities for specific areas of activity. Full detail of any changes will be set out in the 2019/20 Strategy.

Audit and Standards Committee

Table 4: Approved Investment Counterparties and Limits

Type of institution	Financial Limit	Time Limit
UK central government (Debt Management Office)	Unlimited	Unlimited
UK banks with AAA, AA+, AA, AA-, A+, A credit ratings	£15m each	1 year
UK banks with A- credit ratings	£10m each	1 year
UK Local authorities	£10m each	3 years
UK building societies whose lowest published long-term credit rating is BB <u>and</u> societies without credit ratings with assets greater than £250m	£5m each	1 year
UK money market funds and similar pooled vehicles whose lowest published credit rating is AAA	£5m each	1 year
Local Authority controlled companies in the NECA area	£10m each	20 years

Prudential Indicators

- 2.10 The Treasury Management Strategy agreed by the Leadership Board in January 2018 included a range of indicators to ensure the prudent use of the Authority's borrowing powers set out in the Local Government Act 2003. The Authority's borrowing powers currently extend to Transport related activity only and, as a result, the prudential indicators are focused on that area of NECA activity. These prudential indicators have been revised based on the most up to date capital expenditure/financing position and are set out in the following table.
- 2.11 It is intended to review and potentially reduce the level of the approved authorised borrowing limit for 2019/20 onwards which has been unchanged at £240m for several years, bring it closer to the level of the Capital Financing Requirement. This will be reflected in the Treasury Management and Investment Strategy report produced early in 2019 as part of the budget process for 2019/20.

Audit and Standards Committee

Table 5: Prudential Indicators

	2018/19 estimate	2019/20 estimate	2020/21 estimate	2021/22 estimate
	£m	£m	£m	£m
Capital expenditure (Transport capital programme)	71.002	60.000	60.000	60.000
Financing costs to Net Revenue Stream				
Tyne & Wear Transport levy	61.800	61.100	61.100	61.100
Tyne & Wear Transport financing costs	1.516	1.494	1.458	1.436
%	2.5%	2.4%	2.4%	2.4%
Nexus grant plus direct grants and external income	144.416	143.716	143.016	143.016
Nexus interest and principal repayments to NECA	3.294	3.196	3.066	3.007
%	2.3%	2.2%	2.1%	2.1%
Tunnels tolls income	25.970	26.500	27.500	28.000
Tunnels financing costs	6.716	6.701	6.800	6.800
%	25.8%	25.3%	24.7%	24.3%
CFR at end of year				
Tyne Tunnels and Tyne & Wear Transport	153.727	152.062	150.364	148.628
Nexus	39.938	38.302	36.726	35.209
Enterprise Zones Transport Infrastructure	10.000	20.000	20.000	20.000
Total	203.665	210.364	207.090	203.837
Incremental impact of CF decisions (impact on Transport levy)	-0.023	-0.022	-0.036	-0.022
Operational Boundary for External Debt	235	235	235	235
Authorised Limit for External Debt	240	240	240	240
Actual External Borrowing	167	167	166	166

Audit and Standards Committee

2.12 2019/20 Treasury Management Policy and Strategy

NECA officers are currently preparing the Treasury Management Policy and Strategy for 2019/20, which will be presented to the Authority for approval in advance of the financial year. Areas particularly being explored are plans for the repayment of longer-term debt held by the Authority, and how to ensure this is in line with the Capital Financing Requirement.

3. Reasons for the Proposals

3.1 The purpose of the report is to provide for information a mid-year update of Treasury Management activity for 2018/19.

4. Alternative Options Available

4.1 This report is for information only, with no decision required.

5. Next Steps and Timetable for Implementation

5.1 Proposals for the 2019/20 strategy will be developed further by officers and presented for agreement by the Leadership Board with the budget report in January 2019.

6. Potential Impact on Objectives

6.1 Effective treasury management enables financing charges to be minimised and interest income maximised while maintaining the security of the Authority's liquid assets. This supports the Authority's overall budget position which enables it to deliver all of its objectives more effectively.

7. Financial and Other Resources Implications

7.1 The financial and other resource implications are summarised in this report where they are known. Further details which are developed as part of the consultation process will be identified in the budget report to the Leadership Board meeting in early 2019.

8. Legal Implications

8.1 There are no legal implications arising from this report.

9. Key Risks

9.1 The main risks relate to external interest rates and security of investments. Interest rate risks are mitigated by maintaining a balance of predominantly longer-term fixed rate borrowing, while seeking to minimise interest charges through reducing the total level of external borrowing as opportunities are presented. The risk of investments being lost due to the financial difficulties of a third party is being

Audit and Standards Committee

mitigated by revising the Authority's investment criteria to reflect the most up to date information on credit worthiness from external treasury management advisers.

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 Treasury Management Policy and Strategy was included with the 2018/19 budget which was subject to consultation with NECA constituent authorities, NECA committees and key officer groups.

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 None.

15. Background Papers

15.1 Treasury Management Policy and Strategy 2018/19 (Leadership Board 16 January 2018 <https://northeastca.gov.uk/wp-content/uploads/2018/03/Leadership-Board-16-January-2018-Agenda-Pack.pdf>)

16. Contact Officers

16.1 Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign off

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

Audit and Standards Committee

Date: 4 December 2018
Subject: Budget Proposals 2019/20
Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to seek the views of the Audit and Standards Committee on proposals for the setting of the 2019/20 NECA budget, as part of its consultation process. A summary report on the Draft 2019/20 Budget was presented to the Leadership Board on 13 November and a report on the 2019/20 Budget and Transport Levies was presented to the Joint Transport Committee on 20 November; both of these reports are attached here as appendices.

The views of the Audit and Standards Committee will be taken into account in the development of the detailed budget report and reported to the Joint Transport Committee and the NECA Leadership Board when they set the budgets and Transport Levies for 2019/20 in January and February 2019.

Recommendations

The Audit and Standards Committee is recommended to receive the report for information and provide comment for consideration as part of the 2019/20 budget 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 2019/20 NECA budget, as part of its consultation process. The summary report on the Draft Budget presented to the Leadership Board on 13 November, covering all aspects of the NECA budget, and the report on the Draft Budget and Transport Levies presented to the Joint Transport Committee on 20 November are attached as appendices.

2 Proposals

- 2.1 The budget proposals for 2019/20 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 13 November include:

- a) The current £250,000 contribution towards the North East Local Enterprise Partnership (NELEP), funded by an equal contribution of £35,714.29 from the seven councils in the NELEP area, which is required to match fund government grant, is proposed to be continued in 2019/20;
- b) NECA will need to maintain sufficient capacity to meet its statutory requirements. The budget will be developed and presented to the Leadership Board in detail in February 2019 once key decisions are made by the constituent authorities to enable its preparation;
- c) The contribution to the Invest North East England (INEE) team is subject to discussions with constituent councils and the NELEP. The current council contributions of £140,000, £20,000 from each council in the NELEP area is proposed to be continued for 2019/20;
- d) The North East LEP budget is being prepared to reflect its responsibilities and the estimated available resources for 2019/20 and more detailed information will be included in the February 2019 Leadership Board report.

- 2.3 Key proposals (set out in detail in Appendix 2) presented to the Joint Transport Committee on 20 November include:

- a) The 2019/20 net Transport Budget and levy for Tyne and Wear is indicatively proposed to be set at £61.1m which is a further reduction of £0.7m compared with the budget and levy for 2018/19. The budget savings needed to deliver this are expected to be made by Nexus in 2019/20 without significant impact on transport services, through efficiencies and temporary use of Nexus reserves.

Audit and Standards Committee

- b) The indicative Transport Budget and Levy for the Durham County Council area is expected to be £15.557m, which is a small reduction of £0.140m compared to 2018/19. At this point no significant reduction in services is envisaged.
- c) The indicative Transport Budget and Levy for the Northumberland County Council area is expected to be £6.119m, which is a small reduction of £0.032m compared to 2018/19. At this point no significant reduction in services is envisaged.
- d) 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, in line with the concession contract and the agreed approach to the funding of the Tyne Tunnels.

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 This report is for information only, with no decision required.

5. Next Steps and Timetable for Implementation

- 5.1 Comments made as part of the consultation process will be taken into account in the development of the final, detailed budget proposals for 2019/20 which will be presented to the Joint Transport Committee and the NECA Leadership Board for approval in January and February 2019.

6. Potential Impact on Objectives

- 6.1 Impacts on objectives are set out in the individual reports contained as appendices.

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 specific 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 Joint Transport Committee, 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: Budget and 2019/20 Budget Setting Process (report to Leadership Board, 13 November 2019)

Appendix 2: Transport Budget and Levies (report to Joint Transport Committee, 20 November 2019)

15. Background Papers

15.1 None

16. Contact Officers

16.1 Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk, 0191 277 7518

Audit and Standards Committee

17. Sign off

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

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Leadership Board

Date: 13 November 2018

Subject: Budget and 2019/20 Budget Setting Process

Report of: Head of Paid Service and Chief Finance Officer

Executive Summary

The purpose of this report is to outline the NECA Budget for 2018/19; the budget setting process for 2019/20 and the elements that are likely to be in the 2019/20 budget, which will be included as part of the budget consultation for 2019/20. As part of this is the acknowledgement of the change in the process from previous years in light of the creation of the Joint Transport Committee.

Recommendations

The Leadership Board is recommended to:

- i. Receive this report for consideration and comment;
- ii. Note the Budget position for 2018/19 set out in section 1.5;
- iii. Approve the 2019/20 Budget Setting Process and Timetable, set out in sections 1.8 to 1.14, which is an exception to the normal budget setting timetable set out in the Constitution;
- iv. Agree the following proposals for the basis of consultation about the NECA 2019/20 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 proposed to be continued in 2019/20;
 - b. NECA will need to maintain sufficient capacity to meet its statutory requirements. The budget will be developed and presented to the Leadership Board in detail in February 2019 once key decisions are made by the constituent authorities to enable its preparation;
 - c. The contribution to the Invest North East England (INEE) team is subject to discussion with constituent councils and the North East LEP. The current council contributions of £140,000, £20,000 from each council is proposed to be continued for 2019/20, as outlined in section 2.2;
 - d. The North East LEP budget is being prepared to reflect its responsibilities and the estimated available resources for 2019/20 and more detailed information will be included in the February Leadership Board report.

Leadership Board

- v. Agree that the information in this report will be incorporated with information relating to the Transport Budget to be considered and agreed by the new Joint Transport Committee as part of a two-month budget consultation process. The report on the 2019/20 Transport Budget proposals to the Joint Transport Committee will be circulated on a supplemental agenda as Appendix 1.

Leadership Board

1. Background Information

Revised Budget Process

- 1.1 Previously, all aspects of the Budget were agreed by the NECA Leadership Board. The new arrangements set out in the NECA and NoTCA Orders require decisions about the Transport Revenue Budget and Levies and the Transport Capital Programme to be determined by the new Joint Transport Committee. The transport functions and assets still rest with each Combined Authority but can only be exercised or deployed through the Joint Transport Committee. Accordingly, the Joint Transport Committee is an integral part of the decision-making in relation to the budget of each Combined Authority. In future the Leadership Board will take the decisions about the non-transport elements of its budget and incorporate the transport elements in its budget, in accordance with the decisions of the Joint Transport Committee. NECA is currently the accountable body for the North East LEP and, it is anticipated, this will continue for a few months until the North East LEP agrees which organisation will be its accountable body in the future. Until the change comes into effect, NECA will continue to be accountable for the North East LEP budget and to report on it.
- 1.2 The issues for consideration by the restructured NECA Leadership Board are therefore contributions from councils to support the North East LEP, contributions from councils to support the INEE team, contributions from councils to the Corporate costs of the reshaped NECA and the Non-Transport Capital Programme.
- 1.3 As the accountable body for the North East LEP at the time when decisions relating to the 2019/20 Budget must be taken, the NECA budget report will include information about the funds available to the North East LEP and its proposed budget for 2019/20, which will be agreed by the North East LEP Board. The budget will need to reflect decisions about the level of government grant available to support North East LEP costs as well as the guidance and resource requirements needed to meet grant conditions.
- 1.4 In terms of the budget process, consultation will begin by the accountable body producing a draft budget and consultation timetable. This will first be shared with the Leadership Board, including assumptions as to the transport budget and outline proposals in relation to levies and tolls in respect to this. The outline transport proposals will then be considered by the Joint Transport Committee. Consultation will continue until the Joint Transport Committee determines the budget, tolls and levies. In doing this, the Joint Transport Committee will be directly exercising the transport functions of each Combined Authority and, in effect, the Joint Transport Committee's decisions can be immediately enacted by the relevant Combined Authority. The decisions of the Joint Transport Committee will be incorporated into the final budget proposals for the Combined Authority which will be signed off by the Leadership Board. The process described will, in accordance with past practice, be commenced with the Joint

Leadership Board

Transport Committee no less than two months before the calculations of the transport levies need to be finalised.

Budget for 2018/19

- 1.5 The transport budget and transport levies for 2018/19 that were agreed in January 2018 will continue as originally agreed for the remainder of the year.
- 1.6 The contributions from each authority in 2018/19 towards the cost of the North East LEP Team and the Inward Investment Team that were agreed in January 2018, will also continue for the year: -
- a contribution of £35,714.29 from each constituent council to provide a £250,000 match funding contribution to fund North East LEP core activity in 2018/19; and
 - a contribution of £20,000 from each constituent council to provide a £140,000 local authority contribution towards the budget of the Inward Investment Team budget of £460,000, approved in January 2018.
- 1.7 In terms of the contribution from each authority of £42,857 to fund the corporate costs of NECA in 2018/19, it is proposed that this contribution from each of the seven councils continue to be paid for the year. This contribution helps cover the accountable body costs of the North East LEP and helps to fund the accountable body costs of Transport, which will continue to be funded by all seven councils. The corporate costs of the reconstituted NECA will be met by the four remaining members. It is intended that costs of each of the activities over the next four months will be identified together with any additional devolution costs to be met by the authorities leaving NECA, in accordance with the Deed of Co-operation. The costs attributable to authorities for the year will be calculated as part of the closure of the 2018/19 accounts, which will be subject to external audit and any refunds due to the councils leaving NECA will be made at that point.

The 2019/20 Budget Setting Process and Timetable

- 1.8 In terms of the timetable for the budget setting meetings, there are three stages.
- Draft Budget proposals will be considered by the decision making bodies in November, the two Combined Authority Leadership Boards and the Joint Transport Committee, which will be the start of a Budget Consultation Process. This year the timetable means that the draft transport proposals will be reported directly to the inaugural meeting of the Joint Transport Committee on 20 November and the report to that committee will be circulated on a supplemental agenda as Appendix 1;
 - A two month budget consultation process, which will involve meetings of

Leadership Board

the NECA Audit and Standards Committee on 4 December; the NECA Overview and Scrutiny Committee on 20 December; (and will involve the JTC Audit Committee and JTC Overview and Scrutiny Committee), the North East of England Chamber of Commerce and other stakeholders, and an opportunity for consideration by constituent councils; and

- A formal budget approval process with Transport Budgets, Levies and Capital Programmes being agreed by the North East Joint Transport Committee, expected to be at a meeting of the JTC and non-Transport budgets and the issuing of the Transport Levies being agreed by the Leadership Boards of the Combined Authorities in January / February 2019.

- 1.9 As the accountable body for Transport, NECA will produce the draft Transport budget and Levy proposals for consideration and agreement as a basis for consultation by the Joint Transport Committee (JTC) at an inaugural meeting on 20th November 2018. NECA has undertaken initial technical briefings and discussions on the budget proposals with officers from the constituent councils. This will result in the draft transport budget proposals for consideration by the Joint Transport Committee.
- 1.10 This report sets out information about the small number of non-transport budget proposals that will form part of the draft Budget for NECA, to form the basis of consultation.
- 1.11 The agreement of the proposals set out in this report will be included with information about the Transport Budget and Levy proposals for consultation. The Constitution of NECA requires an early consultation on budget proposals, giving at least two months for the consultation process to be completed. The circulation of this report will start the consultation process, which will include consideration of the budget report by the NECA Overview and Scrutiny Committee on 20th December, NECA Audit and Standards Committee on 4th December, the constituent councils, consideration by the North East LEP and a consultation with the North East England Chamber of Commerce and other stakeholders (and will also involve the JTC Audit Committee and JTC Overview and Scrutiny Committee).
- 1.12 The NECA and NoTCA Orders require the decisions about the setting of the Transport Revenue Budget, the Transport Levy and the Capital Programme to be made by the JTC. The date of the JTC transport budget/levy decision making meeting in January is likely to be on 22 January. The NECA Leadership Board could agree the non-transport aspects of the Budget at a meeting in January or February. Two possible dates are under consideration – 15th January or 5th February 2019. A meeting on 5th February is a preferred date as it would also be able to receive information about the Transport Budgets and Levy agreed by the Joint Transport Committee. The NECA Leadership Board

Leadership Board

would then formally issue the Transport Levies to its constituent authorities.

- 1.13 The extent of public consultation will depend on and be proportionate to the impact on the public of the proposals to be considered in order to balance the need for public consultation and the need to deliver value for money for the use of public funds. As the proposals that are currently expected to be considered for 2019/20 are unlikely to have a significant adverse impact on the public the consultation is proposed to be light touch, with information available on the web site and through the consultation arrangements of the constituent councils. The views of Overview and Scrutiny Committee will be sought on the adequacy of the proposed public consultation arrangements.
- 1.14 The Budget process set out above varies from the process set out in section 3 of the NECA Constitution, which is included in a separate report on this agenda, due to the shortened budget timetable resulting from the timing of the Governance changes being made to the organisation this year. That section of the Constitution requires a further consideration of the final proposals by Overview and Scrutiny Committee after the consultation period ends, giving an additional opportunity for Overview and Scrutiny Committee to comment on the proposals before they are approval by the Joint Transport Committee and the Leadership Board. There is currently no formal meeting of Overview and Scrutiny Committee in the meeting programme in January to enable this to happen and the timetable currently envisaged would not enable papers to be produced in time for this process to be completed. Given that it is not envisaged that the public impact of the budget proposals will be significant, it is proposed that this issue to considered by Overview and Scrutiny Committee at their next meeting on 20 December, with an option of a Special Meeting to be arranged, if they so wish, or as a minimum an opportunity for the Chair and Vice Chair of the committee to make additional comments about the final proposals and for these to be reported to and taken into account by the Joint Transport Committee and the Leadership Board when they decide the budget at their meetings in January and February. The NECA Leadership Board is recommended to agree the revised budget process as an exception to the process set out in the Constitution. The Joint Transport Committee will also be asked to agree the revised budget process in this year's exceptional circumstances.

Leadership Board

2. Proposals

Budget Proposals for 2019/20

North East LEP Capacity

- 2.1 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. It is proposed that the current match funding contribution of £250,000 will continue to be provided in 2019/20 by the seven North East councils contributing £35,714.29 each. 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. The North East LEP budget is being prepared to take into account the latest estimates of this and other external grant funding which supports North East LEP activity. The total North East LEP operational budget in 2018/19 is around £3m. An update on the revised estimate of the overall North East LEP Budget for 2018/19 and the estimate for 2019/20 will be reported to the NECA Leadership Board budget meeting in February for information and comment.

Inward Investment

- 2.2 In recent years the INEE team has been established to help coordinate inward investment activity across the NECA area. The team consists of three people and has a gross budget of £460,000 funded in part from a contribution of £20,000 from each local authority within the North East LEP area, matched by £140,000 funding from the North East LEP, other one-off funds and contributions from Enterprise Zone surpluses for activity supporting and promoting Enterprise Zones. Options for the level of activity and funding for 2019/20 are currently being discussed with the constituent councils and the North East LEP and a specific proposal will be included in the February report on detailed budget proposals for 2019/20. At this stage it is recommended that the contribution of £20,000 per council be continued for 2019/20.

NECA Corporate Costs

- 2.3 The NECA budget for Corporate costs is required to support corporate operational costs, including costs 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; administration and coordination.
- 2.4 Where costs are attributable to particular areas of thematic activity, for example Transport, these will be reported to the JTC for approval and will be charged to the Transport budgets to be met from the Transport levies. Once it is clear when the transfer of the North East LEP accountable body is to take place, the costs

Leadership Board

associated with this will be identified to be funded by all seven councils.

- 2.5 It is important that sufficient central Corporate capacity is available to enable NECA to fulfil its statutory and corporate functions as a legal entity effectively. A NECA Corporate budget will be developed and costed once key decisions are made by the remaining constituent authorities. At this point there is insufficient information available to enable this contribution to be determined. The current level of contribution of £42,857 will be taken into account in developing the new budget. It is therefore intended that the costs will be identified and the corporate contribution from the four remaining constituent authority members of NECA will be assessed and calculated in time for them to be reported for consideration and approval at the Budget meeting of the Leadership Board in February 2019.
- 2.6 It is good practice for all organisations to develop a Medium Term Financial Strategy (MTFS) and it would be preferable to develop the 2019/20 budget for NECA in the context of as much information as possible over a three to five year period. However, the transitional position of NECA itself has not made this possible in recent years and this continues to be the case for 2019/20, although operational areas of the Transport budgets such as Nexus and the Tyne Tunnels are planned across a longer period.

Reserves and Contingencies

- 2.7 The Corporate reserve of NECA was originally set at a relatively low level of £350,000, which was created by a contribution of £50,000 from each local authority. As at 1 April 2018, the reserve totalled £311,000, which was considered a prudent level to enable NECA to manage financial risks. An updated estimate of this corporate reserve will be reported to the Budget meeting in February 2019. The local authorities leaving NECA will be entitled to a refund of an equal share of this reserve and this will be taken into account in the assessment of any refund due for 2019/20 as part of the completion of the 2019/20 accounts.
- 2.8 Once there is greater clarity about what the activities of the reconstituted NECA are to be in 2019/20, an assessment of risk can be undertaken and a recommendation can be made about the level of reserves that should be held for the year, which will need to be part of the Budget report to the Leadership Board when the budget for the year is set.
- 2.9 Separate reserves are held for Tyne and Wear Transport activity, the Tyne Tunnels and Nexus, which are available to manage financial risks relating to these specific areas of activity. These decisions will be taken by Nexus and the Joint Transport Committee.

Leadership Board

2.10 An update of the Treasury Management Policy and Strategy will be considered by the Audit and Standards Committee on 5 December and then reported to the Joint Transport Committee and the Leadership Boards in January and February 2019. Currently all of the NECA External Borrowing relates to historic Tyne and Wear Transport activities. While the Joint Transport Committee has an advisory role in connection with the borrowing limits relating to transport, the Treasury Management arrangements are managed by NECA as the accountable body for the Joint Transport Committee and are approved by the two Combined Authorities. A proportion of the outstanding balance of the loans and investments (based on the share of Tyne and Wear population in each combined authority areas) will be shown in the balance sheets of the two Combined Authorities. It may be necessary for the individual loan agreements with lenders to be amended to reflect the new arrangement for the share of liabilities between the two Combined Authorities. A summary of the estimated Loan outstanding at the date of the change in governance is set out in Table 1 below.

Table 1: Transport (Tyne and Wear) Outstanding Debt, and Capital Financing Requirement at 2nd November 2018

	Principal	Interest Due	Total	NECA Share	NoTCA Share
	£000	£000	£000	£000	£000
Capital Financing Requirement	193,665		193,665	107,883	85,782
Actual External Debt	167,333	2,274	169,607	94,482	75,125

3. Reasons for the Proposals

3.1 NECA is required to consult on its budget proposals two months before it sets its budget in February 2019.

4. Alternative Options Available

4.1 The Leadership Board are recommended to agree the proposals set out in this report or suggest amendments or alternative proposals to be considered as part of the budget consultation process.

5. Next Steps and Timetable for Implementation

5.1 The budget proposals will be consulted upon with constituent councils, Overview and Scrutiny Committee, Audit and Standards Committee, the JTC Overview and Scrutiny Committee once formed and the JTC Audit Committee once formed and with the North East England Chamber of Commerce. Other stakeholders will also have the opportunity to comment.

Leadership Board

5.2 The draft North East LEP Budget will be developed and considered by the North East LEP Board and will be reported for information to the NECA Leadership Board in February 2019.

5.3 Detailed budget proposals will be developed and responses to consultation will be taken into account in preparing the more detailed report to the February Leadership Board.

6. Potential Impact on Objectives

6.1 The budget proposals aim to help achieve the objectives of NECA and the Strategic Economic Plan.

7. Financial and Other Resources Implications

7.1 The 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 February 2019 Leadership Board meeting.

8. Legal Implications

8.1 If agreed, the process described at [1.8] above will be incorporated into the Budget and Policy Framework Rules of Procedure of the NECA Constitution. At least 2 months before the transport revenue budget and levy are required to be finalised, the accountable body for transport will produce outline proposals to the Joint Transport Committee. It is anticipated that wider budget proposal papers will need to be developed for the Leadership Board. The timetable will also allow NECA's Overview and Scrutiny Committee and the JTC's Overview and Scrutiny Committee to, after considering the consultation proposals and timetable, make appropriate recommendations to the Leadership Board and the Joint Transport Committee respectively.

8.2 The JTC must approve the transport budget, levies and tolls unanimously. The Leadership Board must approve the final overall budget proposals unanimously (incorporating the budget approved by the JTC).

8.3 It is important to recognise that the transport budgets will be held by the accountable Combined Authority. The transport assets and liabilities are jointly owned by the two Combined Authorities and will be included in their accounts at the start and end of the accounting period. The Joint Transport Committee exercises functions held by the two Combined Authorities and, can accordingly direct how those functions are properly exercised. The JTC is the final decision-making body in relation to these transport matters and no further decision or authority is required to implement its decisions on behalf of the two Combined Authorities.

Leadership Board

9. Key Risks

- 9.1 Appropriate risk management arrangements will be put in place and reported as part of the budget report in February. Key issues to consider will be the level of reserves held and the borrowing and lending criteria applied by the Authority.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

- 12.1 The NECA Constitution requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed. It is proposed that the 2019/20 base budget proposals be consulted upon alongside the Transport Budget proposals to be determined by the JTC on 20 November to start a consultation process, which will include the Overview and Scrutiny Committee, Audit and Standards Committee, constituent councils and the NEE✓CC. 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 implications are expected. Proposals will be published on the NECA web site for comment and included in any budget consultation undertaken by constituent authorities.
- 12.2 The North East LEP will be considering and developing its budget from November to January, with a final Budget being agreed at its meeting in March 2019. Draft budget proposals will be published in the report to the NECA Leadership Board in January and on the North East LEP's website and any comments received on those proposals will be taken into account by the LEP Board when it sets its budget in March.

13. Other Impact of the Proposals

- 13.1 There are no other impacts arising from this report.

14. Appendices

- 14.1 Appendix 1 : 2019/20 Transport Budget and levies Report to the Joint Transport Committee on 20 November 2018

Leadership Board

15. Background Papers

15.1 NECA Constitution – published on this agenda

16. Contact Officers

16.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk,
07446936840

17. Sign off

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

North East Joint Transport Committee

Date: 20 November 2018
Subject: Transport Budget and Levies
Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to set out a summary of the proposed draft Transport revenue budget and levies for 2019/20, and provides an update on the transport revenue budget position in the current year.

Recommendations

The Joint Transport Committee is recommended to: -

- i. Receive this report for consideration and comment;
- ii. Note the position of the current year 2018/19 Transport Budget and Levies, as set out in sections 2.1, 2.2, and 2.3 of this report;
- iii. Agree the following proposals for the basis of consultation about the 2019/20 Transport Revenue Budget:
 - a. The 2019/20 net Transport Budget and levy for Tyne and Wear is indicatively proposed to be set at £61.1m which is a further reduction of £0.7m compared with the budget and levy for 2018/19. The budget savings needed to deliver this are expected to be made by Nexus in 2019/20 without significant impact on transport services, through efficiencies and temporary use of Nexus reserves.
 - b. The indicative Transport Budget and Levy for the Durham County Council area is expected to be £15.557m, which is a small reduction of £0.140m, compared to 2018/19. At this point no significant reduction in services is envisaged.

- c. The indicative Transport Budget and Levy for the Northumberland County Council area is expected to be £6.119m, which is a small reduction of £0.032m compared to 2018/19. At this point no significant reduction in services is envisaged.
 - d. That the Tyne Tunnel Tolls are proposed to be increased to keep pace with inflation and the increase in the shadow toll payable to the concessionaire TT2, in line with the concession contract and the agreed approach to the funding of the Tyne Tunnels, as set out in section 2.5.5.
- iv. Note that the budget proposals for Transport will be subject to a consultation process of two months, including reports to the Audit and Standards and Oversight and Scrutiny Committees and to the North East England Chamber of Commerce; as well as being available for comment on the web site and through individual councils' budget consultation processes, as considered necessary.
 - v. Note the intention to consider and approve the Transport Revenue Budget and to set the Transport Levies for 2019/20 at a meeting in January (potentially 22 January) after taking into account any comments received on the proposals for 2019/20.

1. Background Information

1.1 This report sets out a summary of the proposed draft Transport revenue budget and levies for 2019/20, and an update on the revenue position in the current year.

1.2 The Transport budget for 2018/19 was agreed by the NECA Leadership Board at its meeting on 16 January 2018, when total transport levies of £83.648m were set.

2. Proposals

2.1 Transport Revenue Budgets 2018/19 Forecast and 2019/20 Proposals

2.1.1 As the Transport levies and revenue grants are normally fixed for the year there is no change in Levies payable and minimal change in the NECA revenue budget itself. 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. The significant change is a £3.333m reduction in the grant payable to Nexus later in the year, with £3.333m being paid instead to a Metro Fleet Replacement Reserve as a second year contribution towards the match funding contribution that is required by the Department for Transport.

Table 1: 2018/19 Transport Levies and Grants

	2018/19 Original Budget	2018/19 Forecast	Spend to date Oct 2018
	£000	£000	£000
Total Transport Levies	(83,648)	(83,648)	(41,824)
Grant to Durham	15,692	15,692	7,846
Grant to Northumberland	6,146	6,146	3,073
Grant to Nexus	59,700	56,367	29,850
Contribution to Metro Fleet Replacement Reserve		3,333	0
Retained Transport Levy Budget	2,110	2,108	879
Contribution (to)/from NECA Transport reserves	-	(2)	(176)

2.1.2 The overall total proposed net revenue budget for Transport in 2019/20 is £82.776m. This represents a net cash reduction of £0.872m (1.04%) on the budget for 2018/19 agreed by the NECA Leadership Board in January 2018. Information about the draft budget and the levies for each of the three areas covered by the Joint Transport Committee (JTC) are summarised in the table below and set out in more detail in the following sections.

Table 2: Summary of proposed transport budgets and levies 2019/20

Area	Transport Levy	Change from 2018/19
	£000	£000
Durham	15,557	(140)
Northumberland	6,119	(32)
Tyne and Wear	61,100	(700)
Total	82,776	(872)

2.2 Durham County Council

2.2.1 The budget and levy for public passenger transport activity in County Durham is expected to be in the region of £15.557m for 2019/20. This compares with a levy for 2018/19 of £15.697m.

Table 3: Draft Durham Transport Budget and Levy 2019/20

	2018/19 Original Budget	2018/19 Forecast	2019/20 Proposed Budget
	£000	£000	£000
Concessionary Fares	11,940	11,940	12,059
Subsidised Services	2,850	2,553	2,558
Bus Stations	144	152	163
Bus Shelters	19	27	19
Passenger Transport Information	89	85	90
Staffing	650	650	663
Share of NECA Transport Costs	5	5	5
Net Expenditure	15,697	15,412	15,557

2.2.2 For 2018/19 an underspend of £0.285m is forecast, which will be retained by Durham County Council at the year-end. The main reasons for the projected underspend are as follows:

1. Subsidised Services - £297k under budget – this relates mainly to medium term financial plan savings made early following changes to the procurement of bus services.
2. Bus Stations - £8k over budget – this results from increased Repairs and Maintenance and vandalism.
3. Bus Shelters – £8k over budget – this results from increased repairs and maintenance.

2.2.3 Durham Council is currently developing its 2019/20 budget proposals, but some draft figures are set in the table above. At the current time, net budgets are proposed to be largely in line with the current year, with no significant adverse impact on services anticipated at this point.

2.3 Northumberland County Council

2.3.1 The proposed budget and levy for public transport activity in Northumberland is £6.119m for 2019/20. This compares with a budget of £6.151m for 2018/19. The budget and levy for 2018/19 and 2019/20 is summarised in the table below. :

2.3.2 *Table 4: Draft Northumberland Transport Budget and Levy 2019/20*

	2018/19 Original Budget	2018/19 Forecast	2019/20 Proposed Budget
	£000	£000	£000
Concessionary Fares	4,722	4,720	4,690
Subsidised Services	1,230	1,230	1,230
Bus Stations	23	23	23
Passenger Transport Information	25	27	25
Staffing	145	145	145
Share of NECA Transport Costs	5	5	5
Net Expenditure	6,151	6,151	6,119

2.3.3 The main areas of expenditure operated by Northumberland are:

i) Concessionary Fares – Although claims from operators are received monthly all adjustments are being reimbursed with an accurate overall rate. It is currently forecast that Concessionary Fares will break-even in 2018/19.

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 Council will break-even at the end of the financial year. No new routes are currently being proposed to be added to the network.

The Council is currently drafting and assessing its 2019/20 budget proposals so figures remain draft at this stage. The final medium term financial plan and budget proposals will be subject to consultation and therefore the budget may be subject to further amendments. At the current time, budgets are proposed to be largely in line with the current year with no significant changes.

2.4 Tyne and Wear

2.4.1 The distribution of the levy within Tyne and Wear is based on population, in accordance with the Transport Levying Bodies Regulations. The amounts levied on each individual authority will reflect the midyear population estimate for 2017 as well as the reduction in the overall total. The proposed levy for 2019/20 for each of the Tyne and Wear councils is shown below:

2.4.2

Table 5: Distribution of Proposed Tyne and Wear Transport Levy

	2018/19 Levy	Proposed 2019/20 Levy	Proposed Reduction
	£000	£000	£000
Gateshead	11,037	10,949	(88)
Newcastle	16,232	16,003	(229)
North Tyneside	11,131	11,061	(70)
South Tyneside	8,181	8,090	(91)
Sunderland	15,219	14,997	(222)
Total	61,800	61,100	(700)

The proposed levy is based on discussions with councils and represents a reduction of £0.700m compared with 2018/19. It takes into account the fact that savings are being delivered in the Nexus budget in the current year and the pressures on councils' budgets. A levy reduction of this scale for 2019/20 was envisaged previously in 2017 and can be achieved without service reductions being needed in the next two years, through use of efficiency savings and Nexus reserves.

2.4.3

Tyne and Wear Levy Budget – Nexus

The budget proposal for Nexus for 2019/20 will be discussed in more detail by the Tyne and Wear Sub Committee. At its January 2018 meeting, the Leadership Board agreed that Nexus could run a budget deficit of up to £1.934m in 2018/19, which would be funded by using its reserves. In the Revenue Budget Monitoring Report presented to the NECA's Transport North East Committee on 11 October 2018, Nexus reported that it had made a permanent reduction to its base budget requirement and it was now reporting a £1.200m surplus for 2018/19.

2.4.4 The adjustments to Nexus' base budget for 2018/19 are shown in the table below.

Table 6: Adjustments to Nexus budget 2018/19

	£m	£m
Base budget deficit 2018/19		1.934
Budget Savings		
- Concessionary travel	(0.830)	
- Metro fare income	(0.800)	
- High voltage power	(0.500)	
- Secured services	(0.310)	
- Investment income	(0.080)	
- Scholars income	(0.200)	
- Employees	(0.300)	
- Other	(0.257)	(3.277)
Budget Pressures		
- Commission income	0.060	
- Inflationary adjustments	0.058	
- Departure charges	0.025	0.143
Revised base budget surplus 2018/19		(1.200)

2.4.5 The proposed reduction in the Tyne and Wear transport levy of £0.7m in 2019/20 will mean that the grant made available to Nexus in 2019/20 from the Joint Transport Committee will reduce by £0.7m. Notwithstanding this, because of Nexus' improved financial position in 2018/19, it will be able to maintain frontline services during 2019/20. As in previous years, it will be necessary to plan on the basis that Nexus will need to utilise reserves in order to prepare a balanced budget. In so doing, and without any improvement in its funding from April 2021, Nexus will need to work through the Sub-Committee (and the Joint Transport Committee) in regards possible service reductions during 2020/21.

2.4.6 Against a background of medium term financial uncertainty, but with the proposed objectives of its corporate plan for 2019/20 in mind, Nexus has considered its spending plans for 2019/20, assuming its budget is being set at 'stand-still' i.e. if it were to maintain service outcomes.

2.4.7 The budget proposal is based on estimates that have a degree of uncertainty in respect of some of Nexus' largest areas of expenditure. In particular:

a. Nexus is currently in consultation with its four recognised Trades Unions (TUs) concerning pay awards for April 2018 and April 2019. Nexus' offer is the subject of a ballot at this time and the outcome is uncertain. However the 'gap' between the TUs pay claim and that which Nexus have offered (which is broadly in line with the local government settlement) is circa £0.500m in 2018/19 and £1.0m in 2019/20.

b. Whilst Metro fare revenue collected to the end of period 6 in 2018/19 is

£0.800m above the budget set in January 2018, we are continuing to see a reduction in the sales by third parties, most notably Network Ticketing Limited. If fare revenues worsen during the remainder of the year, this will have a knock-on effect in future years. In addition, the Metro fares review scheduled to come into effect in January 2019 will be considered by Tyne and Wear Sub Committee on 21 November, which will consider and agree an approach based upon another report contained elsewhere on today's agenda.

- c. The estimate for High Voltage Power is based on intelligence provided by the specialist team at NEPO who assist Nexus in its procurement of this commodity. Previous estimates have proven to be conservative due to better prices being obtained and delays in the implementation of the governments' Electricity Market Reform agenda.
- d. Whilst the majority of the secured bus services budget is subject to contract price inflation, an element of the budget is dependent on contract renewals and the vagaries of tender returns being different to the previous contractual price.

At its February 2016 meeting, the Tyne and Wear Sub-Committee established the strategic objective that Nexus should be able to balance its revenue budget without placing reliance on its revenue reserves by 2019/20 (minute 65/2016 refers). However, at that time it was anticipated that Nexus' budget deficit would have grown to £7.0m by 2017/18. Through efficiency savings and by redirecting expenditure into priority areas, Nexus has successfully managed and averted this significant budget risk. It is therefore in a position to use reserves again in 2019/20 as a means of protecting services.

For the third year a contribution of £3.333m will be made to the Metro Fleet Renewal reserve, increasing the reserve to £10m to help to achieve the £25m match funding requirement.

Tyne and Wear Levy Transport Budget (non-Nexus)

- 2.4.8 This budget primarily relates to activity inherited from the former Tyne and Wear ITA along with central transport activity. The vast majority of the budget relates to financing charges on historic debt. Additionally, there is budget provision to meet the costs of support services and governance, external audit fees and a repayment to the Tyne Tunnels for use of reserves in 2013/14 to pay off the pension deficit.
- 2.4.9 At this point no saving in the £2.1m Tyne and Wear (non-Nexus) Transport budget has been identified, as the majority of the costs relate to capital financing and are largely fixed. Any saving is likely to be marginal and will not be known until the position and costs of a new Transport Officer post and the support needed for the new Joint Transport Committee and the Tyne and Wear Sub Committee is known.

Table 7: Tyne and Wear Transport Budget (non-Nexus)

	2018/19 Original Budget	2018/19 Forecast	2019/20 Proposed Budget
	£000	£000	£000
Support Services/Staffing	220	220	220
Administration and Governance	42	40	40
Financing Charges	1,798	1,795	1,785
Transport Joint Committee	50	50	50
Total Expenditure	2,110	2,108	2,095
Contribution from Levies*	(2,110)	(2,110)	(2,110)

2.5 Tyne Tunnels

2.5.1 The Tyne Tunnels are accounted for as a ring-fenced account within the NECA budget, meaning that all costs relating to the tunnels are wholly funded from the tolls and Tyne Tunnels reserves, with no call on the levy or government funding.

2.5.2 Table 8: Tyne Tunnels Budget 2018/19 and 2019/20

	2018/19 Original Budget	2018/19 Forecast	2019/20 Proposed Budget
	£000	£000	£000
Tolls Income	(25,970)	(26,730)	(28,090)
Contract payments to TT2	19,480	20,298	21,197
Employees	33	-	-
Pensions	54	50	52
Support Services	80	95	95
Supplies & Services	45	45	45
Financing Charges	6,579	6,594	6,966
Interest/Other Income	(50)	(50)	(50)
Repayment from TWITA for temporary use of reserves	(240)	(240)	(240)
(Surplus)/Deficit on Tyne Tunnels revenue account met from reserves	11	62	(25)

- 2.5.3 The forecast outturn position for 2018/19 is for a small deficit of £62k, which will be met from Tyne Tunnels reserves. The forecast for tolls income is slightly higher than the original budget, taking into effect the increase in the toll on HGV Class 3 vehicles, which came into effect in March 2018. This is offset by an increase in the contract payments to TT2 whose “shadow toll” payment is due to increase by 10p in line with RPI inflation to £1.90 per vehicle from 1 January 2019. Traffic levels continue to be lower than previously experienced, which has been the case since commencement of the Silverlink works in August 2016.
- 2.5.4 The original budget for 2018/19 included provision for employee costs relating to the contract monitoring officer role. During 2018/19 this post has been vacant, with support provided instead by officers from Newcastle City Council and the support services forecast has been updated accordingly. It is assumed that this arrangement will continue into 2019/20.
- 2.5.5 The 2019/20 budget figures shown in Table 8 above assumes an increase in tolls for both Class 2 and Class 3 vehicles in line with inflation as measured by the Retail Price index. It is proposed that the toll for Class 2 Vehicles (cars and light goods vehicles) be increased by 10p from £1.70 to £1.80 and that the toll for Class 3 vehicles (Heavy Goods Vehicles) be increased by 20p from £3.40 to £3.60 in spring 2019. This is being discussed in greater detail with the Tyne and Wear Sub Committee.
- 2.5.6 The increase in toll income in 2019/20 as a result of the increase in tolls is estimated to be £1.56m. Without an increase in tolls the Tyne Tunnels account would operate at a deficit of £1.54m, next year which would be unsustainable over the life of the concession.
- 2.5.7 In terms of the formal process for the increase in Tolls, a decision to increase tolls will be taken by the Tyne and Wear Sub Committee in January. NECA as the Host Combined Authority for Transport will implement the proposed increase. This will involve advertising the proposed increase in at least one local newspaper and notifying the Department of Transport. Once notified, the Department has 21 days to determine whether to make 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 Ltd, taking into account operational considerations.
- 2.5.8 While the traffic through the Tunnels is likely to increase next year, once the Silverlink junction road work have been completed, there will also be some impact from the planned road works at Testos roundabout. While any increase in traffic will increase toll income this will result in an increase in the contract payments to TT2. Given the current uncertainty around the increase in traffic flow the original budget will be based on current traffic levels with the increase evidenced in summer 2019 being reflected in the revised estimate this time next year.
- 2.6 **Regional Transport Team**
- 2.6.1 The Regional Transport Team budget is to support the Joint Transport Committee and North East LEP as a whole, on a seven authority basis. The budget includes salary costs and the items required to ensure a functional central resource across the JTC area including the development of the Transport Manifesto and Transport Plan and various research projects where value can be added at a regional level including modelling works, major schemes bid development, including

Transforming Cities fund, the Freight Quality Partnership and other research studies. During the year the team has also taken on the role of providing support to the Consortium of East Coast Main Line Authorities (ECMA), the costs of which are partly met through a recharge to other member authorities. A summary of the revenue budget for 2018/19 and proposal for 2019/20 is set out in the table below.

Table 9: Regional Transport Team Budget 2018/19 and 2019/20

	2018/19 Original Budget	2018/19 Forecast	2019/20 Proposed Budget
	£000	£000	£000
Expenditure			
Staffing	516	406	531
LTP4 Development	50	11	50
Research and Grant Bid Development (including Transforming Cities Fund)	199	175	200
Miscellaneous	6	5	6
Go Smarter Legacy (Bid/Match Funding)	200	200	-
Total Expenditure	971	797	787
Funded by:			
LTP Integrated Transport Block	(500)	(500)	(500)
LGF Programme Management	(150)	(97)	(150)
Go Smarter Legacy Funding	(200)	(200)	-
Carried forward balances from 2017/18	(121)	-	(137)
Total Funding	(971)	(797)	(787)

2.7

Transforming Cities Fund

During October, NECA was announced as one of ten shortlisted areas to progress to the next stage of bidding for the government's £840m Transforming Cities Fund. The Budget 2018 announced additional money for the Fund, increasing the amount of the fund that we can bid into by £440m to £1,280m. An additional two areas would be allowed to bid for this fund, increasing the number of bidding areas to 12.

NECA will be working with DfT to develop plans which, if successful, will be used to tackle congestion and improve transport connections across the region.

There is a need to identify revenue resources to support the bidding process and initial project design costs, which may include the use of revenue budget savings in 2018/19, and this will be included in the budget report to the January meeting of the JTC.

2.8 Treasury Management - Borrowing

Currently all external borrowing held by NECA relates to historic Tyne and Wear Transport activities, and the financing of the borrowing debt is met from the Tyne and Wear levy and the Tyne Tunnels budgets and is included within the proposals set out above. While the JTC has an advisory role in connection with the borrowing limits relating to transport, the Treasury Management arrangements are managed by NECA as the accountable body for the JTC and are approved by the two Combined Authorities. A proportion of the outstanding balance of the loans and investments (based on the share of Tyne and Wear population in each combined authority area) will be shown in the balance sheets of the two Combined Authorities. A summary of the actual loans outstanding at the date of the change in governance is set out in the table below, which is less than the approved capital financing requirement:

Table 10: Historic Borrowing and the current Capital Financing Requirement

	Principal	Interest Due	Total	NECA Share	NoTCA Share
	£000	£000	£000	£000	£000
Capital Financing Requirement	193,665		193,665	107,883	85,782
Actual External Debt	167,333	2,274	169,607	94,482	75,125

3. Reasons for the Proposals

3.1 The proposals are presented here to inform the JTC of work on the preparation of the 2019/20 Transport Budget and to begin the two month consultation process.

4. Alternative Options Available

4.1 The JTC are recommended to agree the proposals set out in this report or suggest amendments or alternative proposals to be considered as part of the budget consultation process.

5. Next Steps and Timetable for Implementation

5.1 The Transport budget proposals will be consulted upon with constituent councils, Overview and Scrutiny Committee, Audit and Standards Committee and with the North East England Chamber of Commerce. Detailed budget proposals will be developed and responses to consultation will be taken into account in preparing the more detailed report to the January JTC meeting.

5.2 Under the new governance arrangements the Transport Budget and levies are to be set by the Joint Transport Committee (JTC) based on a unanimous decision. The Transport levy determined by the JTC will be formally issued by the two Combined Authorities. This needs to be done before the Statutory deadline of 15th February 2019.

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 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 January 2019 Joint Transport Committee.

8. Legal Implications

8.1 The JTC must approve the transport budget, levies and tolls unanimously. The Leadership Board must approve the final overall budget proposals unanimously (incorporating the budget approved by the JTC).

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 requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed. It is proposed that the 2019/20 Transport budget proposals be consulted upon including with the Overview and Scrutiny Committee, Audit and Standards Committee, constituent councils and the NEECC. 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 implications are expected.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 None

15. Background Papers

15.1 NECA Leadership Board Budget 2018/19 and Transport Levies report 16 January 2018

<https://northeastca.gov.uk/wp-content/uploads/2018/03/Leadership-Board-16-January-2018-Agenda-Pack.pdf>

16. Contact Officers

16.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk, 07446936840

17. Sign off

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



Audit and Standards Committee

Date: 4 December 2018

Subject: **Annual Governance Statement: 2017/18 progress update and Assurance Framework for the production of the 2018/19 Statement**

Report Of: **Audit, Risk and Insurance Service Manager**

Executive Summary

The purpose of this report is to provide the Committee with an overview of progress on governance and internal control issues included in the 2017/18 Annual Governance Statement (AGS) and introduce the assurance framework to produce the 2018/19 Statement.

Recommendation

It is recommended that the Committee:

- I. Consider the updates provided for the two areas identified as requiring improvement in the 2017/18 AGS. This includes the removal of the Committees Quorum item (Appendix A)
- II. Agree the approach to be taken to produce the 2018/19 AGS, including NECA's assurance framework.

Audit and Standards Committee

1. Background Information

This report provides the Committee with progress against the action plans developed to strengthen the governance and internal control issues identified during the production of the 2017/18 AGS and the approach to be taken to produce the 2018/19 Statement.

1.2 Areas requiring improvement

Committee Quorum - Consideration was given to reduce the quorums of both Audit & Standards and Overview & Scrutiny Committees.

The quorum for each Committee is prescribed by the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017 and cannot be reduced below two thirds. Therefore, no change was recommended. The control item will be removed from the AGS as an area requiring improvement.

1.3 Tyne Tunnels – To formulate a proposal and obtain agreement to improve clarity, communications, accountability and officer capacity in respect of the governance and management arrangements for the Tyne Tunnels

Appendix A provides an update on the Tyne Tunnels area requiring improvement item and provides a brief summary of the action taken to date. The item will remain on the AGS as an area requiring improvement and outstanding actions will be monitored as part of the development of the 2018/19 AGS, which will commence in February/March 2019, to bring evidence to the April 2019 Committee.

2. Production of the 2018/19 Annual Governance Statement

The Authority has a statutory duty under the Accounts and Audit Regulations 2015 to do the following on an annual basis:

- Conduct a review of the effectiveness of the system of internal control;
- Prepare an annual governance statement; and
- Through a relevant committee review and approve the annual governance statement.

The proposed approach to produce the 2018/19 Statement is based on a framework of assurance from a number of areas and in preparing it, it will be necessary to review evidence from the following sources. This approach complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice:

- Governance Arrangements e.g. the Authority's Constitution
- Statutory Officers - Completion of assurance statements
- Members - Views of Audit and Standards Committee

Audit and Standards Committee

- Internal Audit Activity – including the Head of Internal Audit’s annual opinion
- Risk Management - Risk reviews
- Performance Management - Outcomes reported during 2018/19
- Views of the external auditor and other external inspectorates
- Key Partnerships - Completion of assurance statements

3. Proposals

3.1 The Committee are asked to consider the updates provided for each of the areas identified in the 2017/18 AGS as requiring improvement and agree the approach to produce the 2018/19 Statement and supporting assurance framework.

3.2 The Audit and Standards Committee will use the assurance framework to review the governance and internal control environment operating during 2018/19 and to challenge assurance being provided on the effective operation of control systems before approving the Annual Governance Statement for inclusion with the final accounts.

3.3 The final Annual Governance Statement will be signed by the Chair of the Combined Authority and the Head of Paid Service.

3.4 The Audit and Standards Committee will receive reports throughout 2019/20 to allow them to monitor the implementation of any actions to rectify weaknesses should they be identified during preparation of the 2018/19 Statement.

4. Reason for the Proposals

The Leadership Board have ultimate responsibility for the governance framework, internal control environment and the effectiveness of those arrangements, although the Audit and Standards Committee will fulfil an ongoing review, challenge and assurance role in relation to governance and internal control issues.

5. Next Steps and Timetable for Implementation

Evidence to support the production of the 2018/19 Annual Governance Statement will commence in February/March and a draft 2018/19 Statement will be presented to Committee at its April 2019 meeting.

6. Potential Impact on Objectives

No direct impact on objectives.

7. Finance and Other Resources Implications

The work to develop the Annual Governance Statement will be carried out by Newcastle City Council’s Internal Audit Service under the SLA for 2018/19.

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- 8. Legal Implications**
There are no direct legal implications arising specifically from this report.
- 9. Key Risks**
There are no direct risk management implications from this report, however the production of the Annual Governance Statement will include the overview of the Authority's key risk areas and how they are being managed.
- 10. Equalities and Diversity**
There are no equalities and diversity implications directly arising from this report.
- 11. Crime and Disorder**
There are no crime and disorder implications directly arising from this report.
- 12. Consultation/Engagement**
The Head of Paid Service, Monitoring Officer and Chief Finance Officer have consulted on the Annual Governance Statement Assurance Framework.
- 13. Other Impact on Proposals**
The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.
- 14. Appendices**
Appendix A - Governance and Internal Control Item identified in the 2017/18 Annual Governance Statement as an area requiring improvement.
- 15. Background Papers**
The Annual Governance Statement 2017/18.
- 16. Contact Officers**
Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council. Philip.slater@newcastle.gov.uk.
Telephone - 0191 2116511
- 17. Sign off**
 - Head of Paid Service ✓
 - Monitoring Officer ✓
 - Chief Finance Officer ✓

Audit and Standards Committee

Governance and Internal Control Item identified in the 2017/18 Annual Governance Statement

Tyne Tunnels

Background/Risk

The North East Combined Authority (NECA) own the Tyne Tunnels. TT2 Ltd are responsible for the operation and routine maintenance of all the tunnels including the pedestrian and cycle tunnels, however the major maintenance liability for the pedestrian and cycle tunnels is retained by the NECA. This is monitored by Newcastle City Council on behalf of NECA in accordance with the terms of the Concession Project Agreement.

In March 2015 the contractor undertaking Phase 3 of the refurbishment works entered administration bringing the project to a halt. Following this NECA took over the role of Main Contractor on the refurbishment of the pedestrian and cyclist tunnels. This role is being undertaken by Newcastle City Council's Building and Commercial Enterprise Division. Bringing the project management in house has minimised further delays and cost risks. This arrangement will continue until the completion of the project.

Effective arrangements need to be put in place to deliver the Client Role responsibilities of NECA.

Accountable Officer: Chief Finance Officer

Action(s) required to enhance effectiveness/Implementation date

Revised implementation date

Formulate a proposal and obtain agreement to improve clarity, communications, accountability and officer capacity in respect to the governance and management arrangements for the Tyne Tunnels. (30 September 2018)

1 February 2019

Implement agreed governance and management arrangements for the Tyne Tunnels. (31 December 2018)

1 April 2019

Handover arrangements for the operation of the newly refurbished Pedestrian and Cycle Tunnels by TT2 need to be put in place this summer prior to the opening of the Tunnels later in the year. (30 September 2018)

31 December 2018

Summary of action taken since September 2018

The three Statutory Officers have increased their involvement in the client overview arrangements for the Tyne Tunnels, and internal meetings and meetings with the TT2 Senior Staff have taken place. However, the design and implementation of new client management arrangements has been delayed until new Transport Officer responsibilities are agreed and implemented following the establishment of the new Joint Transport Committee and the agreement and introduction of new lead Transport Officer arrangements.

The opening of the pedestrian and cycle tunnel has been delayed until early in the new year. Initial discussions have taken place with TT2 about the handover arrangements once the works are complete next year.



Audit and Standards Committee

Date: 4 December 2018

Subject: Internal Audit Progress Report

Report Of: Audit, Risk and Insurance Service Manager

Executive Summary

The purpose of this report is to provide Members with:

- An update on 2017/18 audits.
- The current position with regard to the 2018/19 internal audit plan.

Recommendations

It is recommended that the Committee:

- Note the current position with regard to 2017/18 and 2018/19 audits.

Audit and Standards Committee

1 2017/18 Audit Plan

- 1.1 Set out below is the Internal Audit report which has been issued since the last meeting of Audit and Standards Committee.

Audit	Level of Assurance
LGF Monitoring Returns	Full

- 1.2 No audit recommendations were made in respect of the above audit and Full Assurance was given. Further details of this audit are held at Appendix 1 and definitions for levels of assurance in reports are included at Appendix 2. The Government Department has asked that the outcomes from this piece of work be published, therefore they will be added to the LEP website.
- 1.3 One piece of work for 2017/18 is ongoing, relating to LEP Loans. Whilst this has been subject to a delay, the audit is now scheduled for completion by end of December 2018.

Implementation of Outstanding Recommendations

- 1.4 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high, medium and value for money recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The following table provides details of the recommendations that have recently passed their original implementation date.

	Audit and Recommendation	Lead Officer/ Implementation Due Date
1	Treasury Management	
1.1	<p>The Chief Finance Officer and the Principal Accountant should ensure a comprehensive Finance SLA is produced which ensures:</p> <ul style="list-style-type: none"> Roles and responsibilities of NECA and NCC for all matters relating to Treasury Management are established. It references the Treasury Management Policy and Strategy and the expectations within these. 	<p>Responsibility: Chief Finance Officer</p> <p>The SLA will be updated to include more detail of the respective roles and responsibilities.</p> <p>Original Date 31 July 2018</p> <p>Revised Date 30 April 2019</p>

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	<ul style="list-style-type: none"> The process and rates to be used in the calculation and settlement of amounts owed between NECA and NCC in terms of cash balances and interest, is clearly defined. Appropriate performance management arrangements are established. 	
1.2	<p>The Chief Finance Officer and Principal Accountant should ensure:</p> <ul style="list-style-type: none"> An annual cash flow forecast is produced in advance of the year, taking into account expected receipt and allocations of LGF funding, daily averages for sundry payments and receipts, and commencement / maturity of investments and loans. The annual cash flow forecast is updated daily using actual closing bank balances and any new information to determine any necessary actions, i.e. whether to invest / disinvest to ensure sufficient cash is available when required, and investment limits are not breached. The mid-year review of the TM strategy should report on NECA's compliance with the investments counterparty limits in the year, i.e. on fixed term investments, money market investments and 	<p>Responsibility: Principal Accountant</p> <p>A more detailed cash flow forecast will be produced and monitored throughout the year. The receipt of LGF grant in 2018 did arrive on the expected date which enabled funds to be invested quickly and efficiently.</p> <p>Original Date 31 July 2018</p> <p>Revised Date 30 April 2019</p> <p>Compliance with the limits will be reported as part of mid-year review.</p> <p>Original Date 31 December 2018</p>

Audit and Standards Committee

	<p>balances held with Lloyds bank.</p> <ul style="list-style-type: none"> Alternative options to invest on short notice of receipt of large grants are explored to ensure investment counterparty limits are not breached. 	
2	Human Resources	
2.1	<p>The Monitoring Officer should ensure that a formal SLA is in place for Human Resource services which clearly defines the roles and responsibilities of the constituent authorities who provide HR to the Combined Authority.</p>	<p>Responsibility: Monitoring Officer (supported by Head of Paid Service)</p> <p>The absence of Service Level Agreements in relation to strategic and operational HR (including Payroll) was formally identified with LA7 Chief Executives on 30 November 2017. A mandate was sought to update and finalise SLA arrangements. A mandate was given in December 2017 for project entitled '<i>Formalising Support Services</i>' (<i>Corporate Project 2</i>). New SLAs (including current matters such as GDPR compliance) were drafted and circulated to the relevant constituent authorities on 18 May 2018. Formal response is awaited, but agreement in principal has been reached that SLA arrangements will remain in place over the transition period for the Combined Authority's governance changes which result from the change in the NECA boundary and North of Tyne devolution.</p> <p>Original Date 30 September 2018</p> <p>Revised Date 30 April 2019</p>
2.2	<p>Given the Combined Authority's structure and the involvement of several</p>	<p>Responsibility: Monitoring Officer (supported by Head of Paid Service)</p>

Audit and Standards Committee

	<p>constituent authorities in human resources and payroll, it is imperative a record is maintained of the data held, by whom, and agreements to ensure compliance with the Combined Authority's overarching data management and governance policies are in place.</p> <p>NECA should seek formal assurances from the constituent authorities holding personal, that the data is being held and managed in accordance with the Data Protection Act.</p>	<p>A clear understanding exists between the Chief Legal Officers of NECA and each constituent authority about their roles and responsibilities in relation to protection of data. A full GDPR project has been completed. As part of this all data held has been mapped as part of an audit process. It is, however, accepted, that the new Service Level Agreements containing obligations in relation to GDPR and all related data protection legislation have not yet been signed, but draft documents have been circulated by NECA to constituent authorities on 18 May 2018.</p> <p>Original Date 30 September 2018</p> <p>Revised Date 30 April 2019</p>
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- 1.5 Following discussions with management at NECA, it has been agreed that the recommendations for Treasury Management cannot practicably be implemented until more is known about how NECA will operate following the inception of the North of Tyne Combined Authority. With regard to Human Resources, work has been ongoing to implement the recommendations, and while the SLAs are not yet finalised, assurances have been obtained that risks are mitigated as far as possible, all parties having agreed to provide services to maintain the status quo until April 2019. Services continue to be delivered to a high standard.

2 2018/19 Internal Audit Plan

- 2.1 The following table shows the audits planned for delivery in 2018/19 and the status of each.

Audit and Standards Committee

Audit	Status	Committee for Reporting
Pedestrian and Cycle Tunnels *	Planned	See Below
Implementation of the Local Growth Fund programme	In Progress	March 2019
Budget Setting and Monitoring Arrangements	In Progress	March 2019
Tyne Tunnel Income *	In Progress	March 2019

2.2 The Pedestrian and Cycle Tunnel audit is intended to be a review of the project post-completion, however, as this stage has not yet been reached, this audit is yet to start. The delay in starting 2018/19 audits other than the Pedestrian and Cycle Tunnel has been to allow officers to understand the ongoing changes within NECA. The remaining audits will be delivered by March 2019.

2.3 The 2 audits marked * will also be reported to the Joint Transport Audit Committee in due course.

3 Proposals

3.1 The Audit and Standards Committee are asked to note the position with regard to the audit work currently ongoing.

4 Reasons for the Proposals

4.1 Audit and Standards Committee continue to fulfil an ongoing review, challenge and assurance role in relation to governance and internal control issues.

5 Next Steps and Timetable for Implementation

5.1 Further update to be provided to the next meeting of Audit and Standards Committee following completion of the internal audit plan.

6 Potential Impact on Objectives

6.1 No direct impact on objectives.

7 Finance and Other Resources Implications

7.1 Internal Audit is provided principally by Newcastle City Council and an SLA has been developed to cover this as well as risk management and preparation of the Annual Governance Statement.

Audit and Standards Committee

8 Legal Implications

8.1 No direct legal implications arising specifically from the report.

9 Key Risks

9.1 No key risks are impacted by this report.

10 Equality and Diversity

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

11 Crime and Disorder

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

12 Consultation/ Engagement

12.1 The Head of Paid Service, Monitoring Officer, and Chief Finance Officer have consulted on the internal audit activity.

13 Other Impact of the Proposals

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

14 Appendices

14.1 Audit Activity since July 2018 (Appendix 1)
Levels of Assurance (Appendix 2)

15 Background Papers

15.1 None

16 Contact Officers

16.1 Philip Slater, Audit, Risk and Insurance Service Manager
E-mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

17 Sign Off

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

Audit and Standards Committee

Appendix 1 – Audit Activity since July 2018					
Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
LGF Monitoring Returns	Full	-	-	-	-
Audit objectives and scope					
<p>The overall objective of the audit was to assess whether significant risks in relation to LGF Monitoring Returns are adequately and effectively controlled. This was done through review of the following objectives:</p> <ul style="list-style-type: none"> Regular monitoring returns are submitted that demonstrate progress made against the outputs set out in the Business Plan. Funding claims have been made appropriately, with payments being made promptly and accurately. 					
Internal Audit work undertaken was as follows:					
<ul style="list-style-type: none"> Discussions with the Programme Manager and Senior Funding & Commercial Officer to ascertain the nature of the system and identify the controls operated by management. Review of a sample of projects to ensure all relevant documentation is in place, monitoring is being undertaken effectively and claims are being submitted and paid appropriately: - <ul style="list-style-type: none"> A1058 Coast Road National Centre for Innovation Formulation Eagles Community Arena East Pilgrim Street NETPark Explorer Metro Skills Centre 					
Assurances		Control weaknesses impacting on assurance and recommendations		Opportunities to enhance efficiency and value for money	
<p>Our review identified controls operating from which positive assurances can be taken. These include, but are not limited to, the following:</p> <ul style="list-style-type: none"> Business cases include sufficient information, including scheme objectives and deliverables to facilitate effective monitoring. Monitoring returns are submitted regularly to enable review of progress to take place. Funding claims are supported by evidence of expenditure and are appropriately authorised. Payments are made promptly and accurately. 		None identified		None identified	

Appendix 2 - Definitions

Overall Opinion

Full Assurance

There is a highly effective system of internal control in place designed to achieve the Authority's objectives with no issues being identified.

Substantial Assurance

There is an effective system of internal control in place designed to achieve the Authority's objectives with only minor issues being identified which require improvement.

Moderate Assurance

There is a sound system of internal control in place with some weaknesses being present which may put some of the Authority's objectives at risk. Issues require management attention.

Limited Assurance

The system of internal control in place has some major weaknesses which may put the achievement of the Authority's objectives at risk. Issues therefore require prompt management attention.

No Assurance

There are significant weaknesses in the system of control which could result in failure to achieve the Authority's objectives. Immediate management action is therefore required.

Findings and Recommendations

High

A fundamental control weakness which could have a significant impact on the achievement of the Authority's objectives and reputation.

Medium

A control weakness which could have a major impact on the achievement of the Authority's objectives and reputation.

Low

An issue which if addressed would bring some improvement to the effectiveness of the control system.

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Audit and Standards Committee

Date: 4 December 2018
Subject: Strategic Risk Register
Report Of: Audit, Risk and Insurance Service Manager

Executive Summary

The purpose of this report is to provide members with an update of the Strategic Risks for the North East Combined Authority.

Recommendations

Audit and Standards Committee are asked to review the outcome of the strategic risk review, as well as highlight any additional strategic risks that may need to be considered for inclusion in the risk register.

Audit and Standards Committee

1 Background Information

- 1.1 The Operational and Resourcing risk priority has been increased from Red 12 to Red 16. This assessment acknowledges that the Chief Executives of the seven local authorities have confirmed their support regarding existing Service Level Agreements (SLAs), however renewed SLAs have not been signed. Indications have been given that some services will be altered or withdrawn, without NECA's agreement. Accordingly, at present uncertainty remains around these arrangements.
- 1.2 The Leadership Board adopted the revised Constitution on 13 November 2018, which was updated to reflect the change in the NECA boundary, following removal of the three constituent authorities North of the Tyne and forming the North East Joint Transport Committee of both NECA and the North of Tyne Combined Authority.
- 1.3 Audit and Standards Committee continue to receive regular risk reports which provide information on the high-level risks to NECA and the North East LEP. Going forward it is anticipated that NECA's strategic risk register will include the significant transport risks that have been reported to the new Joint Transport Committee Audit Committee. The transport risks will therefore be reported to this Committee alongside the most significant risks to NECA (Corporate risks) and the North East LEP. Work will commence to identify and record the strategic transport risks with appropriate officers when they are in place.
- 1.4 Appendices A and B provide the Committee with details of each risk. Appendix C provides details of the North East Local Enterprise Partnership risks. The Toolkit at Appendix D is used to determine the risk priority for NECA risks.
- 1.5 The strategic risk register only contains high level risks covering the overall Authority. Specific risks relating to themes within the Strategic Economic Plan, continue to be monitored within the themes. Nexus will report risks to the Joint Transport Committee Tyne and Wear Sub-Committee. A link to the latest Nexus risk register is included at Section 14 - Background documents.

2. Proposals

- 2.1 The Combined Authority will continue to develop the strategic risk register to record, monitor and report the strategic risks to the Audit and Standards Committee at 3 monthly intervals, with support from officers.

3. Reason for the Proposals

- 3.1 Audit and Standards Committee continue to fulfil an ongoing review and assurance role in relation to governance and internal control issues.

Audit and Standards Committee

4. Next Steps and Timetable for Implementation

- 4.1 The risk register will be closely monitored to ensure the mitigation plans and next steps are delivered.

5. Potential Impact on Objectives

- 5.1 The development of the strategic risk register will not impact directly on the objectives of the Authority's policies and priorities, however the approach to strategic risk management will support delivery of aims and ambitions by acknowledging the biggest threats and putting plans in place to manage them.

6. Finance and Other Resources Implications

There are no direct financial implications arising from this report. Risk Management work is supplied to NECA through a Service Level Agreement with Newcastle City Council.

7. Legal Implications

There are no direct legal implications arising specifically from this report.

8. Key Risks

There are no direct risk management implications from this report. The approach to risk management is documented within the agreed policy and strategy.

9. Equalities and Diversity

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

10. Crime and Disorder

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

11. Consultation /Engagement

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

12. Other Impact of the Proposals

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

13. Appendices

Appendix A – 'Risk at a glance' shows NECA's corporate risks, and North East LEP strategic risks and includes risk priority and direction of travel

Appendix B – Provides a detailed assessment of the NECA strategic risks and future activity to reduce the overall risk exposure

Appendix C – Provides a detailed assessment of the North East LEP strategic risks and future activity to reduce the overall risk exposure

Appendix D – Risk Analysis Tool to determine the risk priority for NECA risks.

Audit and Standards Committee

14. Background Documents

[The latest Nexus risks can be found on the NECA website as part of the – Transport North East \(Tyne and Wear\) Sub-Committee.](#) (This Committee has since been replaced with a Joint Transport Tyne and Wear Sub Committee which focuses on transport issues for both NECA and North of the Tyne Combined Authority).

15. Contact Officers

Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council. Philip.slater@newcastle.gov.uk.
Telephone - 0191 2116511

16. Sign off

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

Audit and Standards Committee

Appendix A

Risks at a glance		
Risk Title & Description	Risk Priority	Direction of Travel

NECA Corporate Risks		
<p><u>Effectiveness</u> The future effectiveness of the North East Combined Authority (NECA) may be adversely impacted now the North of Tyne Mayoral Combined Authority has been created.</p>	Amber 8	Static
<p><u>European Funding 2014-2020</u> Failure of the North East LEP area to secure the notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.</p>	Amber 9	Static
<p><u>Operational Capacity and Resourcing</u> The Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p>	Red 16	Deteriorating

North East LEP Risks		
<p><u>Operational Capacity and Resourcing</u> 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)</p>	Amber 8	Static
<p><u>Increase in the role and scope of LEPs by Government with no new resource to support the additional responsibility(ies)</u> Government fails to allocate sufficient operational budgets if they increase the role, scope and remit of LEP activity through changes in national policy, and in particular the national LEP Review.</p>	Red 12	Static
<p><u>Government Capital Funding</u> Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP.</p>	Red 12	Static
<p><u>European Funding</u> Failure of the North East LEP area to secure the notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.</p>	Amber 9	Static
<p><u>North East devolution</u> The LEP area covers 7 local authorities. The LEP area having more than one combined authority may impact on SEP delivery as governance structures and accountable body status change.</p>	Red 12	Static

Audit and Standards Committee

North East Combined Authority – Risk Management

Appendix B

<p><u>Effectiveness</u></p> <p>The future effectiveness of the North East Combined Authority (NECA) may be adversely impacted now a North of Tyne Mayoral Combined Authority has been created.</p>	<p><u>Risk Owner</u> Head of Paid Service</p> <p><u>Risk Score</u></p> <p style="background-color: yellow;">Amber 8</p> <p>Likelihood – Low Impact - Critical</p>
<p>Cause: 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 establishment of a North of Tyne Mayoral Combined Authority.</p>	
<p>Impact/Consequence: The North East Combined Authority will need to adjust to operate with a reduced local authorities’ membership and changes to its boundaries since the establishment of the North of Tyne Mayoral Combined Authority and introduction of the Joint Transport Committee.</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 2 Combined Authorities • The Order provides for the existence of the NECA and specifies its current membership and functions • Formal decision-making committees including NECA Leadership Board, Joint Transport Committee and sub-committee • The LA7 continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Economic Directors, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees • The Strategic Economic Plan (SEP) has been refreshed by the North East LEP to ensure the economic priorities remain current, reflecting the region’s economic position • All seven local authorities continue to support the North East LEP and the SEP • A Strategic Partnership Register has been agreed which identifies all partnerships that are entirely or substantially responsible for delivering or managing an outcome for the Combined Authority • NECA’s revised Constitution was adopted by Leadership Board 13 November 2018 	
<p><u>Next Steps</u></p> <p>The Reconfiguration Programme will continue to review the system of control and assurance framework of NECA, acknowledging the changes to NECA’s boundaries and the creation of the North of Tyne Mayoral Combined Authority.</p> <p>The underpinning projects are:</p> <ul style="list-style-type: none"> • Governance and Corporate • Transport • Employment • Finance 	<p><u>Lead Officer(s)</u></p> <p>Helen Golightly (Head of Paid Service)</p>

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<p><u>European Funding 2014-2020</u></p> <p>Failure of the North East LEP area which covers the 7 Local Authorities to secure the notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.</p>	<p><u>Risk Owner</u> Head of Paid Service</p> <p><u>Risk Score</u></p> <p style="background-color: yellow;">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, leading to underperformance against profiled commitment/spend for some parts of the programme. The UK Shared Prosperity Fund is likely to replace the ESIF Programmes beyond 2021, however there is little detail on how this fund will operate and how much will be available, therefore the future funding opportunities are uncertain at this time.</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"> • Government has given assurances that projects that are contracted before the Brexit deadline of March 2019 will be honoured. This is on the understanding that these projects will meet additional value for money criteria set out by Government • The NECA and the North East LEP have 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 projects, supporting small and medium sized enterprises • The North East LEP have set up a number of partnership working groups to develop local content to feed into project calls to ensure the funding is appropriately focussed on local need • The North East Technical Assistance project, led by Northumberland County Council on behalf of local authority partners; is supporting local partners with their ESIF applications to maximise access to the funding available • The Strategic Economic Plan has been refreshed to ensure its priorities remain current. The Plan is aligned to a European Structural and Investment Fund Strategy, to direct the allocation of European Funding 2014-2020 to grow the North-East Economy 	
<p>Next Steps</p>	<p>Lead Officer(s)</p>
<p>The North East LEP and other local partners are working 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.</p>	<p>Helen Golightly (Chief Executive, North East LEP)</p>
<p>A further tranche of European Social Funding of circa £20m was made available within the North East. The LEP is working closely with MHCLG to inform the need for future funding to be released by central Government.</p>	<p>Helen Golightly (Chief Executive, North East LEP)</p>

Audit and Standards Committee

<p><u>Operational Capacity and Resourcing</u></p> <p>The North East Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p>	<p><u>Risk Owner</u> Head of Paid Service</p> <hr/> <p><u>Risk Score</u></p> <p style="background-color: red; color: white; text-align: center;">Red 16</p> <p>Likelihood – High Impact - Critical</p>
<p>Cause:</p> <p>The uncertainty following the withdrawal of the devolution deal has impacted on:</p> <ul style="list-style-type: none"> • The Authority's commitment to secure permanent senior staff and secondment opportunities, resulting in key officer disciplines and resource requirements being at risk • The establishment of the North of Tyne Combined Authority may result in current officer resources being further reduced 	
<p>Impact/Consequence:</p> <p>Without permanent Statutory Officers and recruitment into other officer positions, the Authority will be unable to improve its effectiveness whilst carrying out its statutory responsibilities and core activities.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • A dedicated Monitoring Officer has been appointed. A contract with the Chief Finance Officer is in place • 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 • The Leadership Board has agreed a budget for 2018/19 • 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 	
<p>Next Steps</p>	<p>Lead Officer(s)</p>
<p>Leadership Board confirmed the appointment of NECA's Statutory Officers and their Deputies on 13 November 2018.</p>	<p>Helen Golightly (Head of Paid Service)</p>
<p>Accountable Body Arrangements – NECA continue to be the Host Combined Authority for the Joint Transport Committee and the functions delegated to it. NECA will host the Regional Transport Team including a Proper Officer for Transport.</p>	<p>Peter Judge (Monitoring Officer)</p>
<p>NECA's 2018/19 Service Level Agreements (SLAs) are in place to ensure key officer disciplines are formally recognised and continue to support Statutory Officers and the Leadership Board. Arrangements for 2019/20 are currently being considered.</p>	<p>Peter Judge (Monitoring Officer)</p>

Audit and Standards Committee

Appendix C

North East Local Enterprise Partnership - Risk Management

<p><u>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).</p>	<p><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low Impact – Critical</p>
<p>Cause: Some funding sources relating to staff resourcing are time-limited and core operational budget levels are not sufficient to allow the Local Enterprise Partnership (LEP) to maintain current capacity levels.</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.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • 2018/19 Budget agreed by the LEP Board and its accountable body • Some financial reserves 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 • Medium term draft budget prepared 	
<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 sitting alongside the LEP structure will enable 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)

Audit and Standards Committee

North East Local Enterprise Partnership - Risk Management

<p><u>Increase in the role and scope of LEPs by Government with no new resource to support the additional responsibility(ies)</u></p> <p>Government fails to allocate sufficient operational budgets if they increase the role, scope and remit of LEP activity through changes in national policy, and in particular the national LEP Review.</p>	<p><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
<p><u>Cause:</u> Government are reviewing the role and scope of LEP activity as it introduces new economic development policies linked particularly to the national Industrial Strategy. There needs to be financial resources made available to LEPs to carry out any increased responsibility and activity.</p>	
<p><u>Impact/Consequence:</u> 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 and 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 is working closely with Government to try to influence policy and its practical implications • LEP Network (national body) also lobbying Government 	
<u>Next Steps</u>	<u>Lead Officer(s)</u>
Continue to lobby and influence Government	Helen Golightly (Chief Executive)
Consider and respond to any changes as they emerge	Helen Golightly (Chief Executive)

Audit and Standards Committee

North East Local Enterprise Partnership - Risk Management

<p><u>Government Capital Funding</u></p> <p>Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP.</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 the design, function and level of future regional/local strategic capital funding sources from Government.</p>	
<p>Impact/Consequence: Without a clear understanding of future potential funding, the delivery of strategic projects related to the SEP post 2021 is at risk.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The refreshed SEP is strongly aligned to key Government policies, such as the Industrial Strategy • The LEP is working with Government to influence policy and funding thinking 	
<u>Next Steps</u>	<u>Lead Officer(s)</u>
Continue to develop projects (where appropriate) to be ready to 'win' funding as it becomes available.	Helen Golightly (Chief Executive)
Continue to work with Government and influence emerging policy thinking.	Helen Golightly (Chief Executive)

Audit and Standards Committee

North East Local Enterprise Partnership - Risk Management

<p><u>European Funding</u></p> <p>Failure of the North East LEP area to secure the notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.</p>	<p><u>Risk Owner</u> Chief Executive</p> <p><u>Risk Score</u></p> <p style="background-color: yellow; text-align: center;">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, leading to underperformance against profiled commitment/spend for some parts of the programme. The UK Shared Prosperity Fund is likely to replace the ESIF Programmes beyond 2021, however there is little detail on how this fund will operate and how much will be available, therefore the future funding opportunities are uncertain at this time.</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"> • In August 2016 Philip Hammond gave assurances that projects that are contracted before the Brexit deadline of March 2019 will be honoured by Government. This is on the understanding that these projects will meet additional value for money criteria set out by Government • The Combined Authority and the North East LEP have 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 projects, supporting small and medium sized enterprises • The North East LEP have set up a number of partnership working groups to develop local content to feed into project calls to ensure the funding is appropriately focussed on local need • 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 has been refreshed to ensure its priorities remain current. The Plan is aligned to the ESIF Strategy, to direct the allocation of European Funding 2014-2020 to grow the North-East Economy • The North East has secured circa £131.6m (contracted) and £176.2m (the pipeline) European Regional Development Fund (ERDF), £73.7m European Social Fund (ESF) and £2.7m of European Agricultural Fund for Rural Development (EAFRD) to date out of the total notional allocation of €560m (£437m) 	
<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>A further tranche of European Social Funding of circa £20m has been made available within the North East. The LEP is working closely with DCLG to inform the need for future funding to be released by central Government.</p>	<p>Helen Golightly (Chief Executive)</p>

Audit and Standards Committee

North East Local Enterprise Partnership - Risk Management

<p><u>North East devolution</u></p> <p>The LEP area covers 7 local authorities. The LEP area having have more than one combined authority may impact on SEP delivery as governance structures and accountable body status are reviewed.</p>	<p><u>Risk Owner</u> Chief Executive</p> <hr/> <p><u>Risk Score</u></p> <p style="background-color: red; color: white; text-align: center;">Red 12</p> <p>Likelihood – Medium Impact – Critical</p>
<p>Cause: The North East Combined Authority’s decision to proceed with a North of Tyne Mayoral Combined Authority has led to the regional governance structures being reviewed as two combined authorities are created, both of which are required to operate effectively with the North East LEP.</p>	
<p>Impact/Consequence: As we move to two combined authorities, the governance, roles and responsibilities both strategy and delivery need to be clear. Any changes to the accountable body agreement must not be detrimental to the North East LEP.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • Service Level Agreements continue to provide key officer support and services to the LEP team from the local authorities • All seven local authorities are committed to supporting the North East LEP and the delivery of the SEP 	
<p>Next Steps</p> <p>Work with all seven local authorities, NECA and North of Tyne as the North of Tyne Mayoral Combined Authority is being created to ensure effective governance, capacity and accountability.</p>	<p>Lead Officer(s)</p> <p>Helen Golightly (Chief Executive)</p>

North East Combined Authority Audit and Standards Committee

Action plans must be developed for Red and Amber risks

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 occurring	
High	Risk will almost certainly occur or is occurring at present
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/Showstopping Page 106	<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 Strategic Investment Plans Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project 	<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 – Transport / NELEP; £0.2m Central Budget) 	<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 Strategic Economic Plan Major project failure 	<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 Transport or NELEP budgets) 	<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 	<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
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 	