



## **North East Combined Authority, Governance Committee**

Tuesday 4th April, 2017 at 2.00 pm

Meeting to be held: Sunderland Civic Centre, Burdon Road, Sunderland SR2 7DN

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## **AGENDA**

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|   | <b>Page No</b> |
|---|----------------|
| 1. <b>Apologies for absence</b>   |                |
| 2. <b>Declarations of Interest</b>  |                |
| 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. <b>Minutes of Previous Meeting held on 6 December 2017</b>   | <b>1 - 6</b>   |
| 4. <b>Future Changes to the Governance Committee</b>  | <b>7 - 10</b>  |
| 5. <b>Accounting Policies for 2016/17 Accounts and Code of Practice Update</b>  | <b>11 - 34</b> |
| 6. <b>Finance Update</b>  | <b>35 - 40</b> |
| 7. <b>External Audit Progress Update</b>  | <b>41 - 60</b> |
| 8. <b>North East LEP Loans and Grants</b>   | <b>61 - 70</b> |
| 9. <b>Internal Audit Progress Report</b>  | <b>71 - 80</b> |
| 10. <b>Strategic Risks and Opportunities Register</b>   | <b>81 - 90</b> |

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

Proposed dates for 2017/2018. Meetings will be held on Tuesday at 2.00pm

4 July 2017

12 September 2017

5 December 2017

3 April 2018

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

**To: All Members of NECA Governance Committee**

## North East Combined Authority, Governance Committee

6 December 2016

(2.00pm - 3.20pm)

Meeting held Jarrow Town Hall, Grange Road, Jarrow NE32 3LE

### Present:

Independent Member: M Scrimshaw (Chair), and G Clark

Councillors: A Dale (Northumberland), P Early (Reserve, North Tyneside), G Hobson (South Tyneside), H Hughes (Gateshead), M Talbot (Newcastle) and H Trueman (Sunderland)

The Chair thanked South Tyneside Council for hosting the meeting.

### 28 APOLOGIES FOR ABSENCE

Apologies for absence were received from E Bell (Durham), C Johnson (North Tyneside) and S Gardner (Independent Person).

### 29 DECLARATIONS OF INTEREST

None

### 30 MINUTES OF PREVIOUS MEETING HELD ON 13 SEPTEMBER 2016

**RESOLVED** – That the Minutes of the previous meeting held on 13 September 2016 were agreed as a correct record and signed by the Chair.

### Matters Arising:

Councillor Dale referred to Minute 19 - Annual Report and Accounts (NECA), indicating that she had reviewed the papers as instructed and had one query, which she decided to raise at this meeting and not submit through to P Woods for submission to the Leadership Board meeting on 20 September 2016. She asked for assurance to be given that monitoring controls were in place for the LEP funds. P Woods provided the assurance, confirming that all necessary arrangements around the NECA LEP funds were in place and were working well.

### 31 REQUESTS FOR EXTENSIONS TO DISPENSATION (NECA)

Submitted – Report by the Monitoring Officer (previously circulated and a copy attached to official minutes), which requested the committee to determine a dispensation along with extensions to dispensations from Members and substitute Members of the Leadership Board in relation to their registerable and non-registerable personal interests.

V Geary introduced the report, pointing out that Councillor Catherine Donovan had requested a dispensation following her appointment to the NECA Leadership Board, and that the remaining requests attached to the report were for extensions to dispensations. On a point of clarification, she explained that extensions for dispensations could be granted continuously at the end of each two year period.

**RESOLVED** – That:

- i. The request for dispensation and extensions to dispensations submitted by Members and substitute Members of the Leadership Board be approved.
- ii. The Monitoring Officer be authorised to grant the dispensation and extensions to dispensations to the Members and substitute Members of the Leadership Board where such requests were not received in time for consideration by the Governance Committee.
- iii. When extensions to dispensations were granted, that the Monitoring Officer be authorised to issue a certificate of dispensation to the Members concerned.

32 **DRAFT BUDGET 2017/2018 CONSULTATION (NECA)**

Submitted – Report by the Chief Finance Officer (previously circulated and a copy attached to official minutes), which sought the views of the committee on proposals for the setting of the 2017/18 NECA budget, as part of its consultation process. A summary report on the Draft 2017/18 Budget was presented to the Leadership Board on 15 November and this was attached as an appendix.

P Woods introduced the report highlighting the key budget issues, principles and proposals. During discussion the following points were raised:

- Clarification was provided around what value for money return was achieved with the LEP grants. Resulting from further queries, P Woods agreed to get an information report submitted to the next meeting of the committee which detailed background information and more specifics about LEP grant applications which had been supported.
- The committee noted the small errors in paragraphs 4.5 and 4.8 which should read '2017-18' and not '2016-17'.
- In response to a query raised, a brief explanation was provided about what had been included in the Autumn Statement. P Woods agreed to circulate to the committee a briefing note summarising the Autumn Statement which had been prepared by the LEP.
- Reference was made to the future dependence on business rates by authorities, with an explanation provided around the activities and major refresh of enterprise zones and the opportunities arising through the securing of JEREMIE 2 grant funding.
- A query as raised about how the running costs of NECA were conveyed to the public through the budget consultation exercise. P Woods provided a brief explanation but as further concerns were expressed agreed to discuss communications around the NECA Budget with the seven local authority communication teams to determine the best way forward on this.

- Confirmation was given that the draft totals around the Tyne Tunnel budget elements were realistic at this point.
- An explanation around the administration and monitoring and the future of the JEREMIE grant funding was provided to the committee.

**RESOLVED** – That the committee received the report.

### 33 **ANNUAL EXTERNAL AUDIT LETTER 2015/16 (EXTERNAL AUDITOR)**

Submitted – Report by the External Auditor (previously circulated and a copy attached to official minutes), which presented the Annual Audit Letter for 2015/16.

C Waddell, External Auditor introduced the report, highlighting key issues and reporting on three recommendations resulting from identification of weaknesses with internal control issues. On a point of clarification, C Waddell provided assurances that the concerns raised in last year's audit around controls and governance had been resolved. The committee noted the management letter from P Woods, NECA Chief Finance Officer.

The Chair on behalf of the committee thanked the staff from Mazars for all their work with the annual audit and asked for an update on progress on this year's audit to be presented to next meeting of this Committee scheduled in April 2017.

**RESOLVED** – That the Annual Audit Letter submitted by Mazars be received.

### **VARIATION TO AGENDA**

The Chair explained that he intended to vary to the agenda explaining that the next item of business was to be 'Invitation to opt into the national scheme for auditor appointments' but that this was to be moved to the last item of business as the External Auditors would need to leave during the committee's consideration of this item.

### 34 **INTERNAL AUDIT PROGRESS REPORT (NECA)**

Submitted – Report by Audit, Risk and Insurance Officer (previously circulated and a copy attached to official minutes), which provided Members with progress against the delivery of the 2016/17 internal audit plan and information on the implementation of audit recommendations.

P Slater introduced the report. On a point of clarification he agreed to circulate any missing implementation dates against audit activities.

**RESOLVED** – That the internal audit activity to date be noted.

### 35 **STRATEGIC RISK AND OPPORTUNITY REGISTER (NECA)**

Submitted – Report by Audit, Risk and Insurance Officer (previously circulated and a copy attached to official minutes), which provided members with an update on the Strategic Risks and Opportunities for the NECA.

P Slater introduced the report, highlighting the closure of the risks around devolution and partnerships and the introduction of a new risk around governance arrangements. During discussions the following points were raised:

- On a point of clarification, P Woods provided a brief explanation around the European funding, pointing out that Brexit would not have an impact as was thought as key projects would be honoured if they had been signed before the Autumn Statement. North Tyneside Legal Team had worked extremely hard to ensure this was done. The Chair thanked North Tyneside Officers for all their efforts.
- Reference was made to the new risk 'Governance Arrangements' with the committee being advised that the Statutory Officers would be working alongside policy officers on any impact in relation to alternative devolution deals.
- Confirmation was provided that timescales could not yet be included around the 'operational capacity and resourcing' risk but would be provided when information was available. It was explained that the Economic Development Officers met on a weekly basis with LEP officers and regular updates were provided to the Head of Paid Service about this risk.
- Concerns were raised around the potential impact on the cultural economy through Brexit. P Woods agreed to raise these concerns with the Economic Development Officers.
- In response to queries raised around the controls already in place for the European funding, P Woods clarified that the partners working group reviewed the impact of losing European Funding but agreed to ask the Head of Paid Service where the decision on the outcome of European funding would be published and get this circulated to the committee.

**RESOLVED – That**

- i. The register be received and noted.
- ii. The new risk describing the Authority's governance arrangements be acknowledged.
- iii. The new operational capacity risk description and increase in risk priority from Amber to Red be acknowledged.
- iv. The following opportunity and risks which had been closed be acknowledged:
  - Governance Review
  - Devolution
  - Partnerships Opportunity

(Councillor A Dale and C Waddell and J Dafter, Mazar's left the meeting at 3.05pm)

**36 INVITATION TO OPT INTO THE NATIONAL SCHEME FOR AUDITOR APPOINTMENTS (NECA)**

Submitted – Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which set out the options available for auditor appointments from 2018/19 onwards and the invitation received from Public Sector

Audit Appointments to opt-in to a national scheme. The views of the committee on preferred options was required for submission to the Leadership Board.

P Woods introduced the report briefing explaining the three options. During discussions the following points were made:

- Concerns were raised about agreeing to the individual appointment option.
- Clarification was provided around the lack of costs against each of the options, which would be unavailable until the procurement exercise was completed.
- Confirmation was provided that external overview and scrutiny would still continue with any option chosen and there would be no impact on internal audit.
- Expressing an interest in the national appointment scheme should not be excluded at this point.
- Further information should be sought on what other authorities were planning to do.
- Clarification on how the national appointment scheme would potentially operate across the country should be sought and provided to the committee.

**RESOLVED** – That the report be received and the following be submitted to the Leadership Board as the views of the Governance Committee's:

- The national appointment scheme option should not be excluded at this point but further information should be sought on what other authorities were planning to do in order to determine if the local appointment scheme would be the best way forward.

### 37 **DATE AND TIME OF NEXT MEETING**

Tuesday 4 April 2017 at 2.00pm Sunderland Civic Centre

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## North East Combined Authority

### Governance Committee

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**DATE:** 4 April 2017

**SUBJECT:** Future Changes to the Governance Committee

**REPORT OF:** Monitoring Officer

#### EXECUTIVE SUMMARY

The purpose of this report is to advise the Governance Committee of the effect of the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016 (the "Order"). The Order requires that the appointment of the Members to the Committee is on the political balance across the areas of the North East Combined Authority as a whole. The Order comes into force on 8 May 2017.

#### RECOMMENDATIONS

It is recommended that the information contained in this report be noted.

#### 1: Background Information

- 1.1 Since the inception of the North East Combined Authority the members of Governance Committee have been nominated by the Constituent Authorities without regard to political balance as this was not a legal requirement. The appointment of members to the Committee is undertaken by the Leadership Board at its Annual Meeting in June in accordance with the nominations received from the Constituent Authorities.
- 1.2 For the forthcoming municipal year, the Committee must be politically balanced. The Order requires that in calculating the political balance of the Committee, it is necessary to ascertain the balance of political parties prevailing among the Members of the Constituent Authorities when taken together. In practical terms, this means ascertaining the total number of Members across the NECA area and then establishing the total number of Members from each political party and independent Members across the area. This will enable an allocation of seats on a regional political balance basis. The political balance of the Committee will not be known until after the forthcoming local and Mayoral elections in May 2017.
- 1.3 It will be necessary for the Leadership Board when appointing Members to the Committee at its Annual Meeting to ensure that political balance of the Committee is achieved in accordance with the terms of the Order.
- 1.4 The Order also requires the Committee to have at least one independent person appointed to it. This requirement is already being met in that two independent persons have been appointed to the Committee who fulfil the role

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## Governance Committee

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of Chair and Vice Chair of the Committee and this arrangement will continue. For the purposes of the appointment to the Committee, a person is independent if the person is not a member, co-opted member or officer of NECA or one of the Constituent Authorities or has been within 5 years of their appointment to the Committee and is not a relative or close friend of a member, or co-opted member or officer.

1.5 The bulk of changes introduced by the Order relates to Overview and Scrutiny Committees of Combined Authorities. The required changes to NECA's Overview and Scrutiny Committee have been reported on and are being implemented elsewhere. The changes to the Overview and Scrutiny Committee are:-

- The appointment of members to the Committee will be based on regional political balance. Currently the political balance of the Committee has been implemented on a voluntary basis and has been calculated on the political balance prevailing in each Constituent Authority at the time of appointment rather than based on regional political balance;
- The Chair of the Committee has to either be an "independent person" or an "appropriate person". An independent person is a person who is not a member, co-opted member or officer of NECA or one of the Constituent Authorities or has been within 5 years of their appointment as Chair and is not a relative or close friend of a member, co-opted member or officer. An appropriate person for the purposes of NECA is a person who is not a member of the registered political party which has the most representatives among the members of the Constituent Authorities;
- There must be in place a process for matters to be referred to the Committee by either a member of the Committee or any member of NECA or the Constituent Authorities;
- The Committee has a power to 'call-in' decisions taken by the decision making bodies of NECA and its officers and can make reports or recommendations with respect to the discharge of its functions, direct that a decision is not to be implemented while it is under review or scrutiny by the Committee and recommend that a decision be reconsidered;
- NECA will be required to appoint a Scrutiny Officer who will promote the role of the Committee as well as providing support and guidance to members of the Committee. The Scrutiny Officer cannot be an officer of a Constituent Authority;

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### 2 Proposals

That the Committee note the introduction of the Order and that the appointment of Members to the Committee from 8 May 2017 will be made so as to achieve political balance on a regional basis.

### 3 Next Steps

3.1 Constituent Authorities will be advised of the requirements of the Order and be invited to submit nominations for membership in accordance with the requirements for political balance. The Leadership Board will be invited to appoint members to the Governance Committee at its annual meeting on 20 June 2017 having regard to the requirements of the Order.

### 4: Potential Impact on Objectives

4.1 The Governance Committee's audit role is a key component of NECA's corporate governance arrangements and provides assurance about NECA's arrangements for managing risk, maintaining an effective control environment and reporting on financial and performance issues.

### 5: Finance and Other Resources

5.1 There are no financial implications as a result of this report.

### 6: Legal

6.1 NECA must be in a position to demonstrate that appointment of members to the Governance Committee is in accordance with the requirements of the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016.

### 7: Other Considerations

#### 7.1 Consultation/Community Engagement

The Leaders and Elected Mayor as well as the Chief Executives have been made aware of the requirement for the Governance Committee to be politically balanced from 8 May 2017.

#### 7.2 Human Rights

There are no specific human rights implications arising from this report.

#### 7.3 Equalities and Diversity

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

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### 7.4 Risk Management

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

### 7.5 Crime and Disorder

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

### 7.6 Environment and Sustainability

There are no specific environment and sustainability implications arising from this report.

## 8: Background Documents

Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016

## 9: Links to the Local Transport Plans

This report has no direct links to the Local Transport Plans.

## 10: Appendices

None.

## 11: Contact Officers

Vivienne Geary, Interim Monitoring officer, NECA; Tel 0191 6435339:  
Viv.geary@northtyneside.gov.uk

## 12: Sign off

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

✓

## North East Combined Authority

### Governance Committee

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**Date:** 4 April 2017

**Subject:** Accounting Policies for 2016/17 Accounts and Code of Practice Update

**Report of:** Chief Finance Officer

#### Executive Summary

This report updates Governance Committee on the Authority's Accounting Policies to be applied in the preparation of the Statement of Accounts for 2016/17, and an update on changes to accounting and reporting standards and guidance which may have an impact on the Authority's accounts this year and in future years.

#### Recommendations

Governance Committee is recommended to review the Accounting Policies presented with this report and approve their use in the preparation of the 2016/17 Statement of Accounts.

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### **1 Background Information**

- 1.1 The purpose of this report is to update Governance Committee on the Authority's accounting policies to be applied in the preparation of the Statement of Accounts for 2016/17 and to seek confirmation from the Governance Committee that appropriate policies are being applied.
- 1.2 This report also provides an update on changes to the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA) ("the Code") and any other changes to UK accounting and reporting standards which may have an impact on NECA's accounts for the year ending 31 March 2017.
- 1.3 A schedule summarising which policies have changed since 2015/16 is set out in Appendix 1. The full draft accounting policies are attached as Appendix 2.

### **2 Proposals**

#### **2.1 Accounting Policies Update**

For 2016/17 there are no significant changes being applied to the Accounting Policies, and only minor amendments for clarity.

Under "Accruals of Income and Expenditure" the de-minimus level for accruals of income and expenditure has been specified for clarity. This is set at £1,000 with the threshold to be kept under review for 2017/18 and future years' accounts.

The policy covering "Leases" has been removed since the Authority is currently not party to any lease arrangements so this is not relevant for 2016/17.

Appendix 1 summarises changes to the Accounting Policies for 2016/17 and the policies are set out in full in Appendix 2.

#### **2.2 Faster Close Update**

- 2.2.1 Details of the updated Accounts and Audit Regulations 2015 were presented to the Committee at its meeting in April 2016. The main change that would have an impact on NECA's accounts is that from 2017/18 the draft accounts must be prepared and signed off by 31 May (currently 30 June) and the audit completed and final accounts signed off by 31 July (currently 30 September).

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2.2.2 As set out last year, NECA is using 2016/17 as a 'trial run' of the new deadlines, so the timetable for production of the accounts is on the basis of signing off the draft accounts by 31 May 2017 and completing audit work by 31 July 2017. Due to the Governance Committee and Leadership Board dates being scheduled for 2017 already, the accounts will be signed off by the Leadership Board at the September meeting as usual (following review by Governance Committee at its meetings in July and September). For 2018, these dates will be brought forward as required to meet the statutory deadline.

### 2.3 Code of Practice Changes 2016/17

2.3.1 The Code for 2016/17 includes a significant change to the Comprehensive Income and Expenditure Statement (CIES), namely the break with the Service Expenditure Reporting Code of Practice (SERCOP) format of presenting income and expenditure across services. Instead of following the prescribed SERCOP format, authorities will now report the income and expenditure in their CIES across their own reporting segments, which should be those usually used for financial reporting to management and taking resourcing decisions. This change to the CIES is a change in presentation basis, and therefore requires restatement of prior year comparative figures.

2.3.2 Although the move away from SERCOP reduces comparability between local authorities nationally, the intention is that it will make it easier to make the link between an authority's own management reporting and its statutory accounts. To this end, a new additional explanatory statement has been introduced, the Expenditure and Funding Analysis (EFA)

2.3.3 The EFA brings together the fiscal/funding framework and the accounting framework by service. It takes the net expenditure that is chargeable to the General Fund and reconciles it to the CIES Surplus or Deficit on the Provision of Services, and is based on an authority's own reporting structure. The purpose of the EFA is to provide greater transparency to the reader on how resources have been applied by the authority and the impact of resource allocation on the General Fund balance by providing details on the statutory adjustments split by type and by segment.

2.3.4 The EFA should be presented with "the prominence which an authority considers necessary". For the NECA accounts, we will present the EFA and its accompanying disclosures as Note 1, immediately following the main financial statements.

2.3.5 There are also minor changes to the Movement in Reserves Statement (MIRS) where prescriptions have been reduced to an absolute minimum in the Code (for example removing the need to show earmarked reserves separately from the rest of the General Fund), but authorities can provide additional rows as they wish.

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### 2.4 Highways Network Asset Update

- 2.4.1 As highlighted in previous reports to the Committee, from 2017/18 the Highways Network Asset Code was to be implemented into the Financial Reporting Requirements of Local Authorities. This would have required a change in the basis of valuation of the Tyne Tunnels, NECA's most significant Property, Plant and Equipment assets, to Depreciated Replacement Cost rather than Depreciated Historic Cost.
- 2.4.2 However at a meeting in March 2017, the CIPFA/Local Authority (Scotland) Accounts Advisory Committee Code Board<sup>1</sup> (CIPFA/LASAAC) decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.
- 2.4.3 The Tyne Tunnels assets will therefore continue to be valued at Depreciated Historic Costs as per the current requirements.

### 3 Next Steps

- 3.1 The agreed accounting policies will be applied in the production of the Statement of Accounts 2016/17, which will be presented to Governance Committee in draft form in July 2017 and in audited form in September 2017 for recommendation to the Leadership Board.

### 4 Potential Impact on Objectives

- 4.1 This report has no specific impact on Objectives.

### 5 Finance and Other Resources

- 5.1 The report considers the Accounting Policies for the Authority's Statement of Accounts for 2016/17.

### 6 Legal

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

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<sup>1</sup> CIPFA/LASAAC Local Authority Accounting Code Board is responsible for the development of the Code of Practice on Local Authority Accounting in the United Kingdom which specifies the financial reporting requirements for local authorities.



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### 7 Other Considerations

#### 7.1 Consultation/Community Engagement

There are no community engagement implications arising from this report.

#### 7.2 Human Rights

There are no human rights implications directly arising from this report.

#### 7.3 Equalities and Diversity

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

#### 7.4 Risk Management

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

#### 7.5 Crime and Disorder

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

#### 7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

### 8 Background Documents

8.1 Code of Practice on Local Authority Accounting 2016/17

### 9 Links to the Local Transport Plans

9.1 There are no links to plans in the policy framework

### 10 Appendices

10.1 Appendix 1 – Summary of changes to Accounting Policies 2016/17

Appendix 2 – North East Combined Authority Accounting Policies 2016/17

### 11 Contact Officers

11.1 Eleanor Goodman, Principal Accountant NECA,  
[eleanor.goodman@northeastca.gov.uk](mailto:eleanor.goodman@northeastca.gov.uk), 0191 277 7518

### 12 Sign off

# North East Combined Authority

## Governance Committee

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

# North East Combined Authority

## Governance Committee

### APPENDIX 1

#### Summary of changes to Accounting Policies 2016/17

| Accounting Policy   | New policy | Amended policy | Policy Removed | No change | In line with Code |
|---|------------|----------------|----------------|-----------|-------------------|
| 1. General Principles   |            |                |                | ✓         | ✓                 |
| 2. Accruals of Income and Expenditure   |            | ✓              |                |           | ✓                 |
| 3. Cash and Cash Equivalents  |            |                |                | ✓         | ✓                 |
| 4. Exceptional Items  |            |                |                | ✓         | ✓                 |
| 5. Prior Period Adjustments, changes in Accounting Policies and Estimates, and Errors |            |                |                | ✓         | ✓                 |
| 6. Charges to Revenue for Non-Current Assets  |            |                |                | ✓         | ✓                 |
| 7. Employee Benefits  |            |                |                | ✓         | ✓                 |
| 8. Pensions   |            |                |                | ✓         | ✓                 |
| 9. Events after the Reporting Period  |            |                |                | ✓         | ✓                 |
| 10. Fair Value Measurement  |            |                |                | ✓         | ✓                 |
| 11. Financial Instruments   |            |                |                | ✓         | ✓                 |
| 12. Government Grants and Contributions   |            |                |                | ✓         | ✓                 |
| 13. Property, Plant and Equipment   |            |                |                | ✓         | ✓                 |
| 14. Public Private Partnership (PPP) Contracts  |            |                |                | ✓         | ✓                 |
| 15. Provisions  |            |                |                | ✓         | ✓                 |
| 16. Contingent Liabilities  |            |                |                | ✓         | ✓                 |
| 17. Reserves  |            |                |                | ✓         | ✓                 |
| 18. Revenue Expenditure Funded from Capital Under Statute                             |            |                |                | ✓         | ✓                 |
| 19. VAT   |            |                |                | ✓         | ✓                 |
| 20. Overheads   |            |                |                | ✓         | ✓                 |
| 21. Tyne Tunnels Income   |            |                |                | ✓         | ✓                 |
| 22. Group Accounts  |            |                |                | ✓         | ✓                 |
| Leases  |            |                | ✓              |           | ✓                 |

# North East Combined Authority

## Governance Committee

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### APPENDIX 2

#### North East Combined Authority Accounting Policies 2016/17

##### 1. General Principles

The Statement of Accounts summarises the North East Combined Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the Authority will continue in operational existence for the foreseeable future.

##### 2. Accruals of Income and Expenditure

The financial statements, other than the cash flow statement, are prepared on an accruals basis. This means that transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received. Accruals are raised for income and expenditure exceeding £1,000.

##### 3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in less than ninety days from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

##### 4. Exceptional Items

Where items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and

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Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### **5. Prior Period Adjustments, Changes in Accounting Policies and Estimates, and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Authority is not required to raise the levy to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **7. Employee Benefits**

#### **Benefits Payable during Employment**

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Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Due to the small number of employees the Authority has, the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year is immaterial and therefore an accrual will not be made. This will be reviewed each year to ensure it is still an appropriate treatment.

### Termination Benefits

Termination benefits are amounts which would be payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

No such amounts are payable in 2016/17.

### 8. Pensions

NECA is a member of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

The relevant fund is the Tyne and Wear Pension Fund, administered by South Tyneside Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at [www.twpf.info](http://www.twpf.info).

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions

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about mortality rates, employee turnover rates and projections of earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - Quoted securities at current bid price.
  - Unquoted securities based on professional estimate.
  - Unlisted securities at current bid price.
  - Property at market value.

The change in the net pensions liability is analysed into the following components:

- a) Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- b) Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- c) Net interest on the net defined liability, i.e. net interest expense for the Authority, the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefits.
- d) Remeasurements comprising:
  - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - Actuarial gains and losses, changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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- e) Contributions paid to the pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### 9. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place of the date of authorisation for issue are not reflected in the Statement of Accounts.

### 10. Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.



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The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

### 11. Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a

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restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets

Financial assets are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments.

### Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices - the market price.
- Other instruments with fixed and determinable payments - discounted cash flow analysis.
- Equity shares with no quoted market prices - independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the

# North East Combined Authority

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Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

### 12. Government Grants and Contributions

Government grants and third party contributions and donations are recognised as due to the Authority (whether they are paid on account, by instalment or in arrears) when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions and capital grants used to fund Revenue Expenditure Financed from Capital Under Statute) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### 13. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the

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Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. The work is carried out on behalf of the Authority by the Property Services Division of Newcastle City Council. These revaluations are detailed within the Notes to the Core Financial Statements.

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Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line (s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### De Minimis Levels

The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimis level are charged to the revenue account and are not classified as capital expenditure, i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established de-minimis level. For all capital expenditure the de-minimis level is £10,000.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

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Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction). Depreciation on all Property, Plant and Equipment assets is calculated by taking the asset value at 31 March 2016, divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment assets has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In the most recent valuations of the Tyne Tunnels, it was assessed that, although Mechanical and Electrical Services and the Toll Plaza have an economic life of 20 years, these formed less than 20% of the overall valuation and have not therefore been classed as significant components.

### Disposals

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

### 14. Public Private Partnership (PPP) Contracts

Public Private Partnerships are agreements to receive services and provide capital jointly with the private sector. The New Tyne Crossing Partnership is judged to be such an arrangement.

The Code requires these arrangements to be assessed under an application of the principles within International Financial Reporting Interpretation Committee 12 (IFRIC 12) 'Service Concessions'.

Arrangements fall in the scope of the Application where both of the following 'IFRIC 12' criteria are met:

- The public sector entity ('grantor') controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

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For any service concession within the scope of the Application, the grantor will recognise the cost of the property, plant and equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing is considered to meet both of the IFRIC 12 criteria, and NECA therefore recognises the costs of the new tunnel on its Balance Sheet.

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with IAS17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However in the New Tyne Crossing Project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating the new tunnel and the existing tunnel. NECA may therefore have no long term obligation to transfer economic resources to TT2 Ltd., and hence should not recognise a liability.

The provisions within the Payment Mechanism for payment of toll revenue to the operator are as follows:

- In each month NECA pays a Shadow Toll to the Operator; this being a fixed amount per vehicle adjusted for changes in RPI;
- Throughout the Term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle type Shadow Tolls;
- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by NECA. If NECA varies a Real Toll from its corresponding Formula Toll beyond a certain level, the Operator is compensated for the effect of this adjustment on demand.

NECA therefore has no exposure to any risk and reward associated with the Operator revenue, but only an executor contract to transfer the Operator's share of total revenues to the operator as it is collected.

It therefore follows from this conclusion that NECA has no long-term obligation to transfer economic resources to the Operator, since the Operator revenue is in substance transferred directly to it. NECA therefore should not recognise a long term liability to finance the project assets.

In relation to such an arrangement, the Code and the accompanying guidance do not provide clear guidance. However, the guidance notes accompanying the Code suggest that the credit that matches the asset should be a deferred income balance. NECA has therefore recognised a deferred credit balance, added to as each of Phase 1 and Phase 2 were completed, and equal to the fair value of the asset addition under each Phase. This balance is then released to the Comprehensive Income and Expenditure Statement over the life of the contract.

### 15. Provisions



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Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For example, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

### **16. Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **17. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against the levy for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

### **18. Revenue Expenditure Funded from Capital Under Statute**

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Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reversed out the amounts charged so that there is no impact on the levy.

### 19. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

### 20. Overheads

The costs of central support services e.g. Finance and Legal Services have been allocated to NECA on the basis of Service Level Agreements in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA). A percentage is allocated to the different areas of NECA activity (e.g. Transport, Economic Development, Corporate) in accordance with estimated work done on each area.

### 21. Tyne Tunnels Income

The majority of the income from tolls is received on a cash basis and so no accruals are necessary. However, prepayments on permit accounts are also received. The balance outstanding on the permit account has been accrued.

### 22. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 to produce Group Accounts to include services provided to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

Although there has been no definitive ruling by CIPFA or central government in relation to Combined Authorities and Passenger Transport Executives, it is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of NECA and Nexus. Nexus has been incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

For the 2016/17 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for the 2016/17 accounts and comparators for 2015/16. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far

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as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

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## North East Combined Authority

### Governance Committee

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**Date:** 4 April 2017  
**Subject:** Financial Update  
**Report of:** Chief Finance Officer

#### **Executive Summary**

This report provides an update on several financial matters which have been progressed since the last meeting of the Committee in December, including the decision taken around appointment of external auditors in future years; the revenue budget and capital programme agreed in January 2017; and other updates, including the establishment of 'The North East Fund'; the results of the Pension Triennial review; and an update on Enterprise Zones.

#### **Recommendations**

The Committee are recommended to receive this report for information.

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### **1 Background Information**

- 1.1 This report provides an update for information on the current progress and status of key financial matters for NECA which have been discussed at previous meetings, including the appointment of external auditors, the budget for 2017/18, the Local Growth Fund, the North East Fund (JEREMIE 2), the triennial actuarial review of the pension fund and enterprise zones.

### **2 Proposals**

#### **2.1 Opt-in to the National Scheme for Auditor Appointments**

- 2.1.1 At the last meeting of the committee, a report on options for external auditor appointments after the end of the current contracts (2017/18) was presented to the committee. The options were to appoint auditors independently, to work with other local authorities in the NECA area to appoint auditors jointly, or to opt-in to the national auditor appointment scheme administered by Public Sector Audit Appointments (PSAA).
- 2.1.2 Some members of the Committee expressed a preference for external auditors to be based locally in the region and that the same auditors should be appointed for Nexus, which forms part of the NECA group accounts. The Committee was therefore interested in exploring the option of a local arrangement if this was forthcoming. The Committee was not minded to recommend that NECA seek to appoint its own auditors independently.
- 2.1.3 The Chief Finance Officer sought responses from the PSAA to these comments and confirmation was received that the views of authorities would be taken into account in appointing auditors wherever possible, including appointments of the same auditors to connected bodies (such as NECA and Nexus) and that it was highly likely that firms appointed would have a regional base.
- 2.1.4 A majority of NECA's constituent authorities indicated that they would be opting-in to the national appointment scheme, while the others were exploring options to procure external auditors jointly, so there is no NECA-wide local arrangement available. Nexus also decided to opt-in to the national scheme. Given the assurances received from PSAA about a local audit base, the fact that the majority of NECA constituent authorities are opting into the national scheme and that Nexus are also opting into the national scheme, the recommendation of the Chief Finance Office was that NECA should opt-in to the national scheme. This was discussed with the NECA Finance Directors group and no issues or concerns were raised about the approach.

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2.1.5 At the Leadership Board meeting on 7 March 2017, the Leadership Board agreed the recommendation to opt-in to the national scheme for auditor appointments. This was communicated formally to the PSAA in writing in advance of the deadline of 9 March.

### 2.2 NECA Budget 2017/18

2.2.1 At December's meeting, the Chief Finance Officer presented the draft budget proposals for 2017/18 which would be taken to the Leadership Board in January 2017. This included a total net revenue budget for NECA totalling around £85.5m and a combined budget for North East LEP and NECA capacity of £4.4m. Total gross revenue expenditure before the application of external income and funding from external grants is expected to be in excess of £231m. Significant savings were reported in the Tyne and Wear Transport Budget, which had enabled the Tyne and Wear Transport Levy to be reduced by over £2m, broadly in line with cuts in Government funding to councils, with no adverse impact on transport services.

2.2.2 At the Leadership Board on 17 January 2017 all areas of the revenue budget and capital programme were approved unanimously.

### 2.3 Update on Local Growth Fund 2016/17

2.3.1 An update on progress of the Local Growth Fund (LGF) was reported to the Leadership Board on 17<sup>th</sup> January and the North East LEP Board on 26<sup>th</sup> January and 23<sup>rd</sup> March. The complexity of the projects in the programme had resulted in delays in both activity and expenditure on several projects. Despite the inclusion of over-programming in July to try to address the risk of slippage, the latest estimate of spending is around £60m, compared with available LGF grant of £81.88m this year.

2.3.2 While this represents an increase in spending compared with the previous year (£51m), it is a lower level of expenditure than had been planned. This was discussed with Government departments in December as part of the review of progress of the Growth Deal, called the 'Annual Conversation'. Whilst the projected budget outturn position of around 73% this year is not as good as the 95.5% achieved in 2015/16, progress was considered to be acceptable from a Government perspective and next year's grant will be released as planned. However, there was still a need to maximise 2016/17 budget spend. Government officials also confirmed that the current North East LEP assurance framework was regarded as being of a high standard.

2.3.3 It was known that unspent grant could be carried over into future years and this has been confirmed with Government. We expect that the grant carried over into 2017/18 would be spent next year, when the total grant available for the LGF (round 1 and 2 projects) is expected to be a minimum of £52m (with an additional £10m available if LGF funding that was used temporarily to fund enterprise zone projects was repaid). An initial spending programme next

# North East Combined Authority

## Governance Committee

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year on paper is now expected to be around £81m, which would give a significant and acceptable level of over-programming and should help achieve the full use of grant next year.

### 2.4 JEREMIE 2 (The North East Fund)

2.4.1 Members have previously been made aware about the potential for a new JEREMIE 2 fund to be established to continue to provide access to finance loans and investment funds for North East Business, which could have impacted upon the accounts of NECA.

2.4.2 The £120m fund has now been established and is called 'The North East Fund', financed from European grants and loans and previous legacy funds. It will be managed through a new special purpose company called "The North East Fund Ltd". Due to issues with borrowing powers, the company was established with assistance from the LEP and NECA, but without any direct involvement of NECA in the company, with the owners of the company being the seven local authorities in the North East LEP area. The activities of the company will not therefore feature in the budget or accounts of NECA.

### 2.5 Triennial Pension Review

2.5.1 In December NECA received the good news that its pension fund was in a surplus position as at March 2016, with a surplus of £2.1m and a funding level of 106%, which is unusual for a local authority. The elimination of the deficit reflects the decision taken by the former ITA in 2014 to use reserves to pay off the deficit. The surplus has resulted from the level of superannuation contributions from 2014/15 to 2016/17; fund investment returns and the updated assumptions used by the pension fund actuaries.

2.5.2 As it is not possible to withdraw surpluses from the pension fund, the Leadership Board agreed to the 0% employer's contribution option presented by the pension fund for the next three years as part of the 2017/18 budget. This has the effect of achieving a saving in the employee costs, in particular the employee costs of the LEP of £0.2m, which can be utilised to provide important capacity to help deliver the Strategic Economic Plan.

### 2.6 Enterprise Zones

2.6.1 The financial modelling of the progress of the first Round of Enterprise Zones and the projections for the second round of 10 Enterprise Zones starting from April 2017 and April 2018 is nearing completion and is expected to be the subject of a report to the LEP Board in May and to the NECA Leadership Board in June or July.



# North East Combined Authority

## Governance Committee

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2.6.2 The income projections are currently being externally reviewed and assessed. It is expected that the Enterprise Zones will fund over £160m of capital investment and produce a significant surplus over their 25 year life. NECA and the LEP are working with all seven local authorities in the area to find the most appropriate and best value way of funding the works, in order that any borrowing that is undertaken can be repaid and to maximise the available surplus. The funding arrangements will be the subject of a further update report later in the year.

### 2.7 Financial Forecast 2016/17

2.7.1 The revenue budget report presented to the Leadership Board in January 2017 included revised forecasts for the 2016/17 budget. This included some additional costs of devolution development work, which have been funded within NECA budgets. All other areas of the budget were expected to be within the original forecasts. Revenue spending is expected to be within the revised budget agreed for the year.

## 3 Next Steps

3.1 A detailed report on the outturn against the 2016/17 revenue budget and capital programme will be brought to the Committee at its next meeting in July 2017.

## 4 Potential Impact on Objectives

4.1 This report is for information and has no specific impact on Objectives.

## 5 Finance and Other Resources

5.1 This report is for information and has no specific finance or resource implications.

## 6 Legal

6.1 This report is for information and has no specific legal implications.

## 7 Other Considerations

### 7.1 Consultation/Community Engagement

There are no community engagement implications arising from this report.

### 7.2 Human Rights

There are no human rights implications directly arising from this report.

# North East Combined Authority

## Governance Committee

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### 7.3 Equalities and Diversity

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

### 7.4 Risk Management

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

### 7.5 Crime and Disorder

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

### 7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

## 8 Background Documents

8.1 None.

## 9 Links to the Local Transport Plans

9.1 There are no links to plans in the policy framework

## 10 Appendices

10.1 None.

## 11 Contact Officers

11.1 Eleanor Goodman, Principal Accountant NECA,  
[eleanor.goodman@northeastca.gov.uk](mailto:eleanor.goodman@northeastca.gov.uk), 0191 277 7518

## 12 Sign off

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

## North East Combined Authority

### Governance Committee

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**Date:** 4 April 2017  
**Subject:** External Audit Progress Update  
**Report of:** External Auditor

#### **Executive Summary**

This report presents the Audit Strategy Memorandum of the External Auditors to NECA, Mazars. This sets out the audit plan in respect of the audit of NECA for the year ending 31 March 2017.

#### **Recommendations**

Governance Committee is recommended to consider and comment on the report of the External Auditor which is attached as Appendix 1.

# North East Combined Authority

## Governance Committee

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### **1 Background Information**

- 1.1 This report presents the report of the External Auditor, Mazars, which is attached as appendix 1.

### **2 Proposals**

- 2.1 The Audit Strategy Memorandum report attached at Appendix 1 sets out the audit plan in respect of the audit of NECA for the year ending 31 March 2017 and forms the basis for discussion at the Governance Committee on 4 April 2017.

### **3 Next Steps**

- 3.1 The audit of the NECA accounts will take place during June and July 2017, after which the external auditor will report their findings to the Governance Committee.

### **4 Potential Impact on Objectives**

- 4.1 This report has no specific impact on Objectives.

### **5 Finance and Other Resources**

- 5.1 There are no finance or resource implications arising from this report. The audit fee for the year is set out in the report, and provision was made in the 2016/17 budget for this.

### **6 Legal**

- 6.1 The Accounts and Audit (England) Regulations 2015 set out the responsibilities of bodies such as NECA in relation to the production of statutory accounts and their audit. Under the NECA Constitution, it is the responsibility of Governance Committee to review key information relating to the NECA's Statement of Accounts, but the approval of the Accounts is a responsibility for the Leadership Board.

### **7 Other Considerations**

#### **7.1 Consultation/Community Engagement**

There are no community engagement implications arising from this report.

#### **7.2 Human Rights**

There are no human rights implications directly arising from this report.

#### **7.3 Equalities and Diversity**

# North East Combined Authority

## Governance Committee

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

### 7.4 Risk Management

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

### 7.5 Crime and Disorder

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

### 7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

## 8 Background Documents

8.1 None

## 9 Links to the Local Transport Plans

9.1 There are no links to plans in the policy framework

## 10 Appendices

10.1 Appendix 1 – Audit Strategy Memorandum

## 11 Contact Officers

11.1 Eleanor Goodman, Principal Accountant NECA,  
[eleanor.goodman@northeastca.gov.uk](mailto:eleanor.goodman@northeastca.gov.uk), 0191 277 7518

## 12 Sign off

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

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# Audit Strategy Memorandum

North East Combined Authority



For the year ended 31 March 2017



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# Executive summary

## Purpose of this report

The Audit Strategy Memorandum sets out our audit plan in respect of the audit of North East Combined Authority (the Authority) for the year ending 31 March 2017, and forms the basis for discussion at the Governance Committee 4 April 2017.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process. We have determined that the North East Leadership Board (NELB) are those charged with governance for the purpose of our audit.

|                                   |  |
|-----------------------------------|--|
| <b>Timing of our work</b>         | Our audit will be delivered in four main phases as outlined in page 8 of this report. The statutory deadline for the completion of our audit work is 30 September 2017.  |
| <b>Financial Statements audit</b> | <p><b>Significant risks</b></p> <p>We have identified the following areas on which we will carry out specific audit procedures to mitigate the risks of material misstatements in the Authority's financial statements;</p> <ul style="list-style-type: none"><li>• Management override of control (relevant to single entity and group accounts);</li><li>• Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts);</li><li>• Property, Plant and Equipment Valuation (relevant to single entity and group accounts); and</li><li>• IAS19 Pension Estimates (relevant to group accounts only).</li></ul> <p><b>Materiality</b></p> <p>At the planning stage of the audit we have set materiality for the financial statements of the single entity at £4.526 million. In reporting the results of our work we do not report identified misstatements below a clearly trivial level. We have set this level at £136,000.</p> |
| <b>Value for Money conclusion</b> | The work we carry out to form a conclusion on whether the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources is summarised on page 10. At this stage we have not identified any risks for our VFM conclusion.   |
| <b>Independence</b>               | We have considered any actual, potential or perceived threats to our independence on page 15. We have not identified any such threats at this stage of the audit.  |

# Audit scope and approach

## **The scope of our work**

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 ('the 2014 Act') and are summarised below.

### Opinion on the financial statements

We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Authority for the year.

Our audit does not relieve management or the NELB, as those charged with governance, of their responsibilities.

### Value for Money conclusion

We are required to conclude whether the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our Value for Money work in greater detail later in this report.

### Whole of Government Accounts (WGA)

We report to the NAO on the consistency of the Authority's financial statements with its WGA submission.

### Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts by an elector. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

## **Our response to the risk of fraud**

International Standards on Auditing (ISAs) require us to obtain reasonable assurance that the financial statements are free from material fraud and/or error. There are a range of ways in which fraud may arise in the context of your financial statements and we formally consider the risk of fraud as part of our planning work and design appropriate procedures to mitigate risks identified. We maintain an appropriate level of professional scepticism throughout the audit and are mindful that a material misstatement due to fraud is possible, however our audit should not be relied upon to identify all such misstatements.

Management and the NELB, as those charged with governance, also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We will enquire of the NELB as part of our audit. Our enquiries will focus on:

- what role the NELB has in relation to fraud and how it is kept informed of fraud related matters by management;
- what anti-fraud measures you have in place and how your policies and procedures are monitored; and
- whether you are aware of any actual, alleged or suspected fraud.

We will formally write to Councillor Paul Watson, in his role as Chair of the NELB, as those charged with governance, making the enquiries above, towards the end of the audit cycle.

### Our approach to obtaining assurance over service organisations

There are material entries in your financial statements where the Authority is dependent on an external organisation. We call these entities service organisations. In Appendix A, we outline our approach to understanding the services received from each organisation and the approach we intend to take to obtain sufficient appropriate evidence over items of account that derive from them.

### Our use of experts and other auditors

#### Management and auditor experts

There are material entries in your financial statements which are provided by management experts. For some of these entries, we will use our own expert to provide us with the assurance we require in relation to the work of your expert.

In addition to setting out information in respect of service organisations, Appendix A also summarises management's experts and our planned audit approach to obtaining assurance over their work.

#### Internal audit

Where appropriate, we will seek to rely on work performed by internal audit where it provides us with the required assurance. We will meet with internal audit to discuss their work programme and findings, and factor this in when determining the most efficient testing strategy.

Where we intend to rely on the work of internal audit, we will evaluate their work and perform our own audit procedures to determine its adequacy for our audit.

### Our approach to the audit of the Authority's group

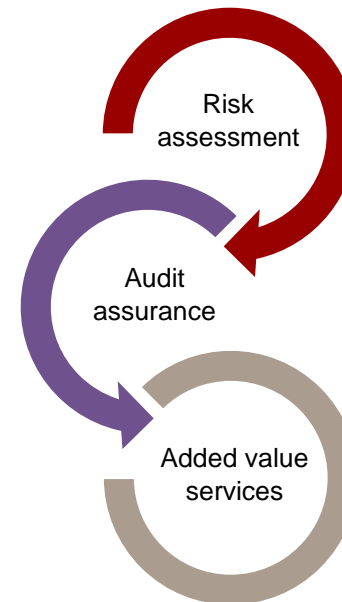
The group consists of the North East Combined Authority and Nexus. We are responsible for the direction, supervision and performance of the group audit. We are also the external auditor for Nexus.

At the planning stage of the audit we have set materiality for the group financial statements as a whole at £5.782 million.

In reporting the results of our work we do not report identified misstatements below a clearly trivial level. We have set this level at £173,000.

### Audit efficiency and our use of IT

Innovative and integrated use of IT drives the efficiency and effectiveness of our audit. Your audit team uses the latest IT-based audit solutions and is supported by a team of IT auditors each of who have extensive knowledge of the sector and providing assurance and advisory services across the public sector.



We know that all organisations are different and face different risks. Our audit platform is modern and flexible and allows us to tailor our audit approach to the specific risks relevant to the Authority, while ensuring compliance with underlying auditing standards.

We focus on the risks to your business continuity and those that give rise to a risk of material misstatement in the financial statements. Your audit team has access to a full suite of data analytics tools which allow them to determine the most effective and efficient testing strategy using IT-audit techniques where appropriate.

# Significant risks and key judgements

## Identified significant risks

As part of our planning procedures we have considered whether there are risks of material misstatement in the Authority's financial statements that require special audit consideration. Although we report identified significant risks at the planning stage of the audit, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to mitigate these risks. Where we identify any significant risks in addition to those set out below, we will report these to the NELB as part of our Audit Completion Report.

| Significant risk   | How we will mitigate the risk   |
|--|---|
| <p><b>Management override of control (relevant to single entity and group accounts)</b></p> <p>In all entities, 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 overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> | <p>Our testing strategy will include:</p> <ul style="list-style-type: none"> <li>• reviewing of material accounting estimates, which may be subject to management bias, included in the financial statements;</li> <li>• consideration and review of unusual or significant transactions outside the normal course of business; and</li> <li>• testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>   |
| <p><b>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)</b></p> <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> <li>• cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and</li> <li>• grant income is 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.</li> </ul>   | <p>We will address this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>• the design and implementation of controls management has in place to ensure income is recognised in the correct period;</li> <li>• cash receipts around the year end to ensure they have been recognised in the right year;</li> <li>• the judgements made by management in determining when grant income is recognised; and</li> <li>• for major grant income, obtaining counterparty confirmation.</li> </ul> |

**Significant risk****How we will mitigate the risk****Property, Plant and Equipment Valuation (relevant to single entity and group accounts)**

Our previous audit work identified the lack of a detailed asset register to fully support the land & buildings and infrastructure assets in the Authority's balance sheet.

Our testing strategy will include:

- reviewing the Authority's arrangements for ensuring that all assets in the asset register are accounted for in the financial statements and vice versa.
- testing a sample of assets and obtain suitable evidence that these assets existed at the balance sheet date and that the Authority hold the rights to the asset.

**Pension Estimates (IAS 19) (relevant to group accounts only)**

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.

We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:

- evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- consider 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.

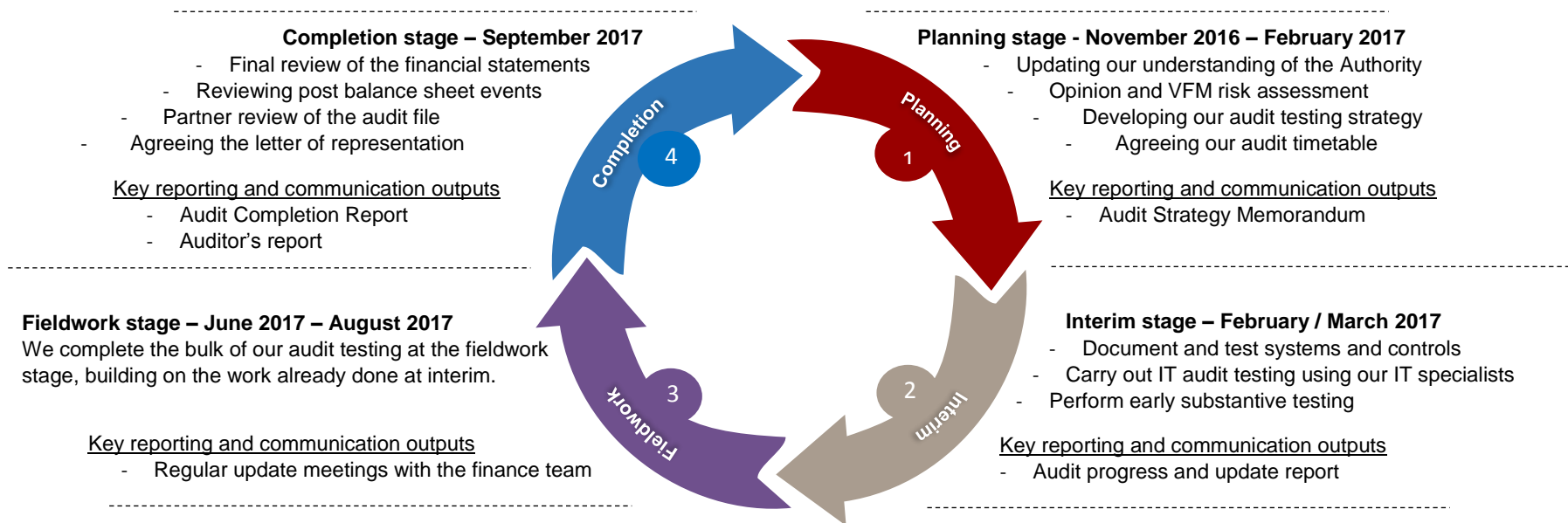
# Timetable and communication

## Our approach to communication

International Standards on Auditing require us to communicate a number of matters with you at various points during the audit cycle. Later in this section we outline exactly how we will communicate with the NELB as those charged with governance. As well as being an integral part of our responsibilities under auditing standards, we see two-way communication with the NELB and the Authority's staff as being critical to building a robust knowledge of your business, the risks and challenges you face and the plans you have in place to meet those challenges.

## Audit timetable

The diagram below outlines the main phases of your audit, when each will be carried out and the outputs that you will receive at each stage. This is underpinned by a 'no surprises' approach to communication that ensures management and the NELB are kept aware of significant issues on a timely basis. We intend to issue our Audit Strategy Memorandum in April 2017, our Audit Completion Report in August 2017 and our Annual Audit Letter in October 2017.



### Key communication points

ISA 260 'Communication with those charged with governance' and ISA 265 'Communicating deficiencies in internal control to those charged with governance and management', require us to communicate a number of matters to you. These matters are set out below.

| Matter to be communicated  | Audit Strategy Memorandum | Audit Completion Report |
|--|---------------------------|-------------------------|
| Our responsibilities in relation to the audit of the financial statements and our wider responsibilities | ✓                         |                         |
| Planned scope and timing of the audit  | ✓                         |                         |
| Significant audit risks and areas of management judgement  | ✓                         |                         |
| Confirmation of our independence   | ✓                         | ✓                       |
| Responsibilities for preventing and detecting errors   | ✓                         |                         |
| Materiality  | ✓                         | ✓                       |
| Fees for audit and other services  | ✓                         |                         |
| Significant deficiencies in internal control   |                           | ✓                       |
| Significant findings from the audit  |                           | ✓                       |
| Significant matters discussed with management  |                           | ✓                       |
| Conclusions on the significant audit risks and areas of management judgement                             |                           | ✓                       |
| Summary of unadjusted misstatements  |                           | ✓                       |
| Management representation letter   |                           | ✓                       |
| Our proposed audit report  |                           | ✓                       |

In addition to the matters outlined above which we are required to communicate under auditing standards, we also communicate regularly with the Governance Committee through our Audit Progress Reports, presented on a quarterly basis. We also report to the NELB to summarise our work and main conclusions through our Audit Completion Report and subsequently in our Annual Audit Letter.

# Value for Money Conclusion

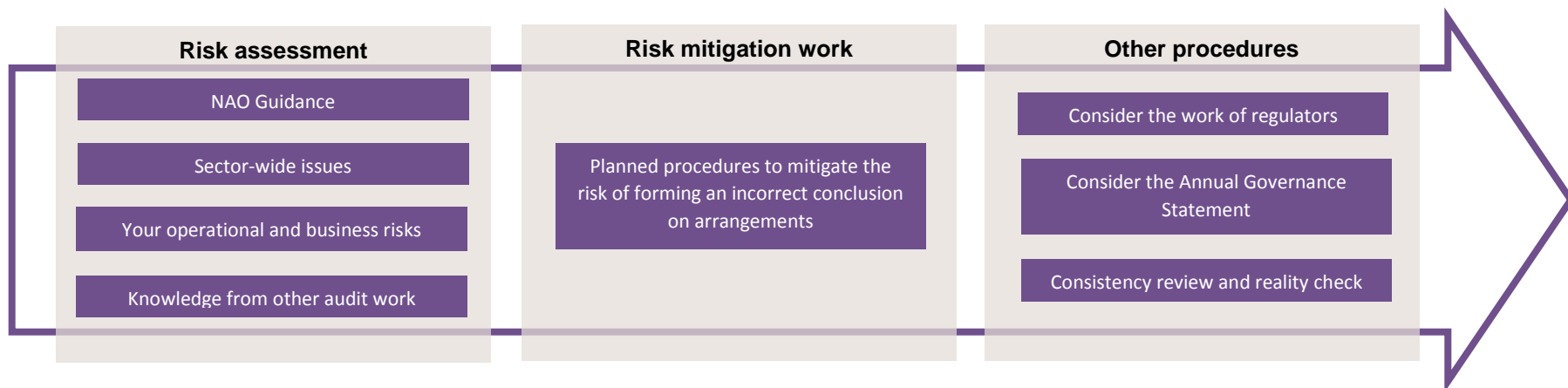
## Our approach to Value for Money work

We are required to form a conclusion as to 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 provided set out by the NAO:

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

A summary of the work we undertake to reach our conclusion is provided below.



## Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a risk to the VFM conclusion exists. Risk, in the context of our VFM 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. As outlined above, we draw on our deep understanding of the Authority and its partners, the local and national economy and wider knowledge of the public sector.

At this stage we have not identified any risks for our VFM conclusion.



# Fees

## Fees for work as the Authority's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd (PSAA) as communicated to you in our fee letter on 13 April 2016.

| Area of work    | 2016/17<br>proposed fee | 2015/16<br>final fee |
|-----------------|-------------------------|----------------------|
| Code audit work | £24,298                 | £24,298              |

## Fees for non-PSAA work

At this stage, there is no non-PSAA work we plan to carry out. Before agreeing to carry out any additional work, we would consider whether there were any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in Appendix B.

# Our team

**Cameron Waddell** – Partner

**Email:** [cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)

**Phone:** 0191 383 6314

Cameron will be the key contact for the NELB and Management. He will have overall responsibility for delivering a high quality audit to the Authority. He will sign the auditor reports and liaise with the Chief Finance Officer and the Governance Committee. Along with Jim, he will attend the Governance Committee and where appropriate, NELB meetings.

**Jim Dafter** – Senior Manager

**Email:** [jim.dafter@mazars.co.uk](mailto:jim.dafter@mazars.co.uk)

**Phone:** 07815 876 042

Jim will manage and coordinate the audit and be the key point of contact for the Principal Accountant, as well as liaising with Internal Audit. Jim will attend the Governance Committee and oversee completion of work to a high standard.

**Elaine Hall** – Team Leader

**Email:** [elaine.hall@mazars.co.uk](mailto:elaine.hall@mazars.co.uk)

**Phone:** 0191 643 5777

Elaine will be the key contact for the finance team, leading day-to-day audit work, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.

# Appendix A – Service organisations and experts

## Service organisations

As we outline in the main body of this report, the Authority makes use of service organisations. ISA 402 defines a service organisation as one that provides services to another entity that form part of that entity's information systems relevant to financial reporting. The table below sets out the service organisations that we have identified as part of our planning work together with a description of how we intend to obtain assurance over the entries in your financial statements that are derived from them.

| Service organisation   | Services provided | Planned audit approach  |
|------------------------|-------------------|---|
| Newcastle City Council | All areas         | Review the Authority's controls over: <ul style="list-style-type: none"> <li>the information provided to the service organisation; and</li> <li>the outputs provided by the service organisation to the Authority.</li> </ul> |

As outlined above, we intend to rely on service auditor reports to provide us with assurance that controls at the service organisation are operating effectively. ISA 402 requires us to carry out a range of audit procedures to determine whether the service auditor report provides sufficient appropriate audit evidence about the effectiveness of controls. Where we determine that a report does not provide sufficient appropriate audit we will need to consider the most efficient and effective alternative method of obtaining this evidence and will discuss this with management.

## Experts

The Authority also uses experts to provide entries in its financial statements. The table below outlines the areas of the financial statements where we expect the Authority to use experts and an explanation of the approach we will take to obtaining assurance over those entries.

| Financial statement area  | Management's expert  | Planned audit approach  |
|---|----------------------|---|
| Defined benefit liability and associated IAS 19 entries and disclosures | Actuary (Aon Hewitt) | Consider 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, prepared by PwC.                              |
| Property, plant and equipment valuations                                | Your internal valuer | Consider the reasonableness of the valuers' output, referring to an expert's report on regional and national trends in property values which is commissioned annually by the National Audit Office, prepared by Gerald Eve. |
| Fair values   | Arlingclose          | Consider the reasonableness of Arlingclose's output, referring to central assurances commissioned annually by the National Audit Office.  |

# Appendix B – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with either Cameron Waddell or Jim Dafer.

Prior to the provision of any non-audit services, Partner name will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

# Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning our audit, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

# Appendix D – Our added value

Our primary responsibilities as the Authority’s external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.

## Insight

Analysis of emerging issues shared regularly with you through our Audit Progress Reports.

Sharing knowledge from our membership of a range of professional networks including those hosted by the ICAEW and NAO.

Regular updates from our public services advisory team on lessons learned from its work across the UK public sector.

Access to our public sector governance forum allowing free and open discussion of governance issues.

## Expertise

Specialist public sector financial reporting advisory service, providing expert analysis of emerging accounting issues.

A dedicated IT audit and advisory team, with expertise and experience of providing services across the public sector.

Provision of annual accounting workshops attended by your finance team.

## Support for continuous improvement

Clear and open communication, allowing for a sensible basis of resolving emerging issues.

Internal control recommendations and follow-up work in conjunction with internal audit.

## North East Combined Authority

### Governance Committee

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**DATE:** 4 April 2017

**SUBJECT:** North East LEP Loans and Grants

**REPORT OF:** Chief Finance Officer

#### EXECUTIVE SUMMARY

This report provides an update on the North East Investment Fund (NEIF) performance and the inclusion of new schemes in the NEIF programme during 2016/17. This update builds upon the NEIF presentation to the July 2016 meeting of the Governance committee presented by the NECA Chief Finance Officer.

The report also includes information requested by the Committee regarding the Local Growth Fund programme, which began in 2015/16.

#### RECOMMENDATIONS

The Governance Committee is recommended to:-

- a) Receive this report on LGF grant and NEIF loans following a request for information at the last Governance Committee;
- b) Note the progress being made in the delivery of the North East Investment Fund and Local Growth Fund and the current position of the programmes summarised in this report.

#### 1 Background Information

- 1.1 The North East Combined Authority is the accountable body for the North East LEP and therefore holds funding for and oversees the administration of the North East Investment Fund and the Local Growth Fund Programme.
- 1.2 The revolving £55m investment fund was initially funded from two central government grant allocations; a £25m Growing Place Fund allocation from the Department for Communities and Local Government and a £30m Regional Growth Fund round 3 allocation from the former Business, Innovation and Skills department.
- 1.3 Investments are made on the basis of loan, repayable grant and Enterprise Zone grants to be repaid through Business Rate Growth receipts. The overall performance of the fund is good with 26 investment allocations totalling £65.8m to date. Repayments to the fund have totalled £9.6m, and there have been no loan write offs, although the LEP has received some requests to reprofile some future repayments.

# North East Combined Authority

## Governance Committee

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1.4 The North East Growth Deal Local Growth Fund allocation of £329.9m over six years is the fourth largest allocation made to a LEP. Of this £220.4m flows through the NE LEP and NECA accounts. This total includes funds awarded under the first two rounds of Local Growth Funding and is supporting major capital projects across the North East LEP area through smart, strategic and focused investment of public and private sector funding. An additional LGF Round 3 allocation of £49.7m was announced in January, which will be allocated over the next four years.

## 2 North East Investment Fund Update

2.1 At present the fund is primarily in the investment phase with the majority of beneficiaries having drawn down their loan allocations and completing developments. As projects compete, the repayment to the NEIF are made and some schemes have already repaid in full. As repayment are returned to the NEIF new allocations are made. All loans and grants made up to the end of 2015/16 have been subject to external audit.

2.2 During 2016/2017 a further two projects have been approved by the North East Investment Panel to receive funding from the NEIF, these are;

- Industrial Units Development at Monkton Business Park. A loan of £1,694,665 was awarded to Helens Investments to facilitate the creation of 58,997 sqft of industrial space.
- North East Property Fund. A repayable grant investment of £5.7m was awarded to Fund Managers FW Capital, to create a £10m 'NE Property Fund' with the aim to support small and medium sized enterprise with residential and commercial construction projects across the North East LEP area. The balance of the funding of £4m is provided by Santander Bank on a senior debt basis and £0.3m by FW Capital as their equity share. The fund is a pilot based on a successful fund in Wales.

2.3 The current NEIF position is provided at Appendix A. This provides a summary of allocations, drawdown and repayments by sub-sections of the fund.

2.4 Requests for the re-profiling of loan repayments have recently been received from three private sector borrowers. The requests in two instances link to slower than anticipated letting of newly created space and the third links to a company restructure. The North East LEP Investment Panel has requested further information from the borrowers to support their requests. Following further dialogue between NECA/LEP Officers and the borrower(s) additional information and recommendations will be considered at the next meeting of the panel in May 2017.



# North East Combined Authority

## Governance Committee

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2.5 There have been no loan defaults to date, and this continues to be the expectation based on project monitoring information. Although one borrower has made periodic interest payments, their focus has been to repay the senior bank lender, which is now almost complete and gives an enhanced value of property security over which the LEP (NECA) has a charge. Given this, the 5% (£1.073m) bad debt provision created as part of the 2015/2016 NECA accounts continues to remain fully intact and available for future years should the position change.

2.6 The fund remains open to applications from both the public and private sector for economic development projects. Work continues between the North East LEP and stakeholders to foster a sustainable pipeline of investments for the fund to support delivery of the Strategic Economic Plan. The criteria against which applications are assessed are available on the NELEP website and are set out in Appendix B.

### 3 Local Growth Fund Programme Update

3.1. Growth Deal funded projects directly support one or more of the following strands of activity:

- Driving innovation and improving business support
- Working with schools to improve outcomes in education
- Tackling skills and economic inclusion
- Building economic assets and infrastructure
- Enhancing transport and digital connectivity

3.2 A total of £219m has been approved in LGF grants to projects to date, with £74.149m having been paid out to date (of which £51m was reported in the 2015/16 accounts). Details of all projects supported and their status are which are set out in Appendix C. Project sponsors are primarily local authorities and further and higher education institutions and projects are managed in four thematic areas: Innovation, Skills, Economic Assets and Infrastructure and Transport.

3.3 Likely expenditure in 2016/17 is around £60m, which is lower than the planned level of expenditure of £81.8m. Unspent grant will be carried forward and is expected to be spent next year.

### 4 Next Steps

4.1 Discussions with projects regarding the re-profiling of repayments are managed by NECA and LEP officers. The recommendations arising from these discussions are reported to the North East LEP Investment Panel for consideration and where necessary to the LEP Board for approval or for delegated approval by the Head of Paid service.

4.2 Income and expenditure relating to the loans and grants described will be included within the NECA accounts which will be presented to the Governance Committee for review at its meetings later in the year.

# North East Combined Authority

## Governance Committee

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### **5 Potential Impact on Objectives**

- 5.1 NEIF supported projects will contribute to the delivery of the SEP objectives, with individual projects making contributions primarily to economic and skills development.
- 5.2 The LGF programme contributes to the delivery of the SEP objectives relating to Transport, economic development and skills.

### **6 Finance and other resources**

- 6.1 The financial implications have been dealt with in the main body of the report.

### **7 Legal**

- 7.1 There are no specific implications arising from this report.

### **8 Other Considerations**

#### **8.1 Consultation / Community Engagement**

There are no specific implications arising from this report.

#### **8.2 Human Rights**

There are no specific implications arising from this report.

#### **8.3 Equalities and Diversity**

There are no specific implications arising from this report.

#### **8.4 Risk Management**

Risks will be assessment and arrangements put in place to manage risk on a project by project basis.

A bad debt provision was included as part of the 2015/2016 Financial Statements and remains unutilised.

#### **8.5 Crime and Disorder**

There are no direct implications arising from this report.

#### **8.6 Environmental and Sustainable**

There are no direct implications arising from this report.

### **9 Background Documents**

None

# North East Combined Authority

## Governance Committee

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### 10 **Links to the Local Transport Plans**

There are no direct implications arising from this report.

### 11 **Appendices**

Appendix A: North East Investment Fund Summary as at 20th March 2017

Appendix B: Extract from NELEP website – criteria for NEIF applications

Appendix C: Summary of LGF Approvals and Project Progress

### 12 **Contact Officers**

12.1 Paul Woods Chief Finance Officer NECA [paul.woods@northeastca.gov.uk](mailto:paul.woods@northeastca.gov.uk)  
07446936840

### 13 **Sign off**

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

# North East Combined Authority

## Governance Committee

### Appendix A - North East Investment Fund Summary as at 20th March 2017

| Type of Organisation                  | Number of Projects | Allocation (£)    | Drawdown to 20/3/17 (£) | LGF Swaps in 2015/2016 (£) | Total Drawdown to 20/3/17 (£) | Total Repayments Rec'd to 20/3/17 (£) |
|---------------------------------------|--------------------|-------------------|-------------------------|----------------------------|-------------------------------|---------------------------------------|
| <b>Enterprise Zone Related Grants</b> |                    |                   |                         |                            |                               |                                       |
| Local Authorities                     | 3                  | 9,880,444         | 9,880,444               | -4,139,230                 | 5,741,214                     | -265,485                              |
| Local Authority Controlled Companies  | 3                  | 3,199,237         | 3,199,237               | -1,471,000                 | 1,728,237                     | -276,482                              |
| Private Sector                        | 3                  | 7,946,841         | 7,946,841               | 0                          | 7,946,841                     | 0                                     |
| <b>Sub Total</b>                      | <b>9</b>           | <b>21,026,523</b> | <b>21,026,523</b>       | <b>-5,610,230</b>          | <b>15,416,293</b>             | <b>-541,967</b>                       |
| <b>Other Grants</b>                   |                    |                   |                         |                            |                               |                                       |
| Local Authority Controlled Companies  | 1                  | 3,175,000         | 3,175,000               | 0                          | 3,175,000                     | 0                                     |
| Private Sector                        | 2                  | 10,250,000        | 4,500,000               | 0                          | 4,500,000                     | 0                                     |
| <b>Sub Total</b>                      | <b>3</b>           | <b>13,425,000</b> | <b>7,675,000</b>        | <b>0</b>                   | <b>7,675,000</b>              | <b>0</b>                              |
| <b>Loans</b>                          |                    |                   |                         |                            |                               |                                       |
| Local Authorities                     | 1                  | 2,500,000         | 2,500,000               | 0                          | 2,500,000                     | -2,500,000                            |
| Private Sector                        | 12                 | 18,852,031        | 17,081,705              | 0                          | 17,081,705                    | -6,556,180                            |
| Universities                          | 1                  | 10,000,000        | 10,000,000              | 0                          | 10,000,000                    | 0                                     |
| <b>Sub Total</b>                      | <b>14</b>          | <b>31,352,031</b> | <b>29,581,705</b>       | <b>0</b>                   | <b>29,581,705</b>             | <b>-9,056,180</b>                     |
| <b>TOTAL</b>                          | <b>26</b>          | <b>65,803,554</b> | <b>58,283,228</b>       | <b>-5,610,230</b>          | <b>52,672,998</b>             | <b>-9,598,147</b>                     |

# North East Combined Authority

## Governance Committee

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### Appendix B – Extract from NELEP website – criteria for NEIF applications

North East Investment Fund applications are evaluated on the following key criteria:

- Strategic economic fit: will your project contribute to strengthening our local economy and/or benefit transport, connectivity or infrastructure? We consider how your proposal will impact immediately and/or act as a catalyst for future change.
- Deliverability: will your project be completed on time and are the goals achievable? Key issues that tend to affect the timescale are; for example, match funding, planning permission, site conditions and so on.
- The recyclability of funding: How and when will you repay the loan including consideration of contingency plans in unforeseen circumstances?
- Circumstances? Unlocking economic growth: How will your project and the investment achieve economic growth and outcomes including job creation, job safeguarding, brownfield land development and private sector investment?

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Local Growth Fund Programme: Project Progress Update - Quarter ending 31/12/2016

■ Pipeline stage  
■ Project feasibility and Business Case development  
■ Project approved and in construction phase  
■ Project live (construction complete) - monitoring period



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| Project Details: Name (Grant Recipient) and brief description  | Activity by Year |       |       |       |       |       |       |       |       |       | Total LGF Allocation | Total Project Cost | LGF Paid to Date | Latest Position  |
|--|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------------|--------------------|------------------|--|
|  | 15/16            | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 |                      |                    |                  |  |
| <b>Innovation</b>  |                  |       |       |       |       |       |       |       |       |       |                      |                    |                  |  |
| <b>Centre for Innovation in Formulation - CIF (Centre for Process Innovation)</b><br>Building of a bespoke technical facility at NETPark, County Durham, to support world leading innovation in high added-value formulated products.  |                  |       |       |       |       |       |       |       |       |       | £ 8,900,000          | £15,900,000        | £ 1,742,859      | Work on site commenced November 2016                                     |
| <b>Newcastle Laboratory and Life Science Incubation Hub (Newcastle City Council)</b><br>New City Centre build which will include high quality lab and office space to support companies involved in life science research and development.                                   |                  |       |       |       |       |       |       |       |       |       | £ 8,600,000          | £25,716,644        | £ 1,137,528      | Work to commence on site February 2017                                   |
| <b>Sunderland Enterprise &amp; Innovation Hub - FabLab (University of Sunderland)</b><br>Refurbishment of existing building and construction of new facility in order to provide a physical focus on innovation support and enterprise development.                          |                  |       |       |       |       |       |       |       |       |       | £ 4,900,000          | £ 8,238,431        | £ 998,259        | Work on site nearing completion  |
| <b>Low Carbon Energy Centre and Heat Network Newcastle Science Centre (Newcastle City Council)</b><br>Building of a Combined Heat and Power and heat network to allow on site generation, distribution and consumption of heat and power at the Science Central development. |                  |       |       |       |       |       |       |       |       |       | £ 2,800,000          | £ 5,500,000        | £ 437,000        | Work on site re-programmed to start August 2017                          |
| <b>Netpark Infrastructure Phase 3 (Durham County Council)</b><br>Construction of new spine road and road access at NETpark, County Durham, to unlock new development sites.  |                  |       |       |       |       |       |       |       |       |       | £ 6,830,000          | £ 6,830,000        | £ 539,088        | Site investigation complete. Work on site to commence spring 2017        |
| <b>Northern Centre for Emerging Technologies (Gateshead Council)</b><br>Refurbishment and expansion of existing building at Gateshead Baltic Quarter to create state of the art R&D testing centre and workshop space for the incubation of SMEs                             |                  |       |       |       |       |       |       |       |       |       | £ 968,830            | £ 7,775,594        | £ -              | Building purchased, refurbishing work on site due to commence April 2017 |
| <b>National Centre for Healthcare Photonics (Centre for Process Innovation)</b><br>Design, planning and build of a new national innovation centre for photonics in healthcare  |                  |       |       |       |       |       |       |       |       |       | £ 8,499,912          | £10,000,000        | £ 76,902         | Feasibility and scoping work underway. Business Case expected late 2017  |
| <b>Medicines Manufacturing &amp; Medical Technology Innovation Infrastructure (Centre for Process Innovation)</b><br>Design and feasibility study of new innovation centre for medicine packaging and delivery   |                  |       |       |       |       |       |       |       |       |       | £ 100,000            | £ 100,000          | £ -              | Feasibility and scoping study underway                                   |
| <b>Skills</b>  |                  |       |       |       |       |       |       |       |       |       |                      |                    |                  |  |
| <b>STEM &amp; Innovation Centre (Tyne Met College)</b><br>Refurbishment of the Tyne Met College's STEM & Innovation Centre facilities.   |                  |       |       |       |       |       |       |       |       |       | £ 1,000,000          | £ 1,200,000        | £ 1,000,000      | Work on site completed, site now operational                             |
| <b>Facilities for Marine &amp; Offshore Engineering (South Tyneside College)</b><br>Refurbishment of the South Tyneside College's marine and offshore technology facilities.   |                  |       |       |       |       |       |       |       |       |       | £ 1,118,214          | £ 3,357,043        | £ 1,118,214      | Work on site completed, site now operational                             |
| <b>Rural Skills Development (East Durham College)</b><br>Refurbishment of Houghall campus to extend support to Land-Based, Animal Care and Rural Sectors.  |                  |       |       |       |       |       |       |       |       |       | £10,000,000          | £12,000,000        | £ 10,000,000     | Work on site completed, site now operational                             |
| <b>Offshore and Wind Energy Training Facility - BEACH (Port of Blyth)</b><br>Partnership project providing new build classroom, workshop and all weather training facilities in Blyth  |                  |       |       |       |       |       |       |       |       |       | £ 400,000            | £ 1,750,000        | £ 400,000        | Work on site completed, site now operational                             |
| <b>Development of a STEM Specialist Centre (Northumberland College)</b><br>New building to provide industry standard facilities for the delivery of STEM skills in Ashington   |                  |       |       |       |       |       |       |       |       |       | £ 2,250,000          | £ 2,500,000        | £ 122,317        | Work on site commenced December 2016                                     |
| <b>Eagles Community Arena (Newcastle Eagles)</b><br>New 2,500-seater sports arena in Newcastle, providing a community venue for sports participation, vocational training, health & wellbeing provision and conferencing and events.   |                  |       |       |       |       |       |       |       |       |       | £ 1,100,000          | £ 6,237,472        | £ -              | Land acquired and work due to commence on site March 2017                |
| <b>Beacon of Light - World of Work (Beacon of Light Foundation)</b><br>Building of a new facility close to the Stadium of Light in Sunderland that will provide employability skills.  |                  |       |       |       |       |       |       |       |       |       | £ 1,792,997          | £17,864,997        | £ 1,017,226      | Work on site commenced October 2016 for completion summer 2017           |
| <b>Economic Assets &amp; Infrastructure</b>  |                  |       |       |       |       |       |       |       |       |       |                      |                    |                  |  |
| <b>Infrastructure for Forrest Park (Durham County Council)</b><br>Building of new electrical substation and highway, including new junction on A167 to allow traffic flow into new development site in County Durham   |                  |       |       |       |       |       |       |       |       |       | £13,000,000          | £13,000,000        | £ 6,436,846      | Advanced utility design and installation works underway                  |
| <b>North East Rural Growth Network (Northumberland County Council)</b><br>Mini programme providing rural strategic economic infrastructure support and small business growth grants in rural parts Northumberland, Durham and Gatehead                                       |                  |       |       |       |       |       |       |       |       |       | £ 6,000,000          | £31,380,000        | £ 1,762,345      | Programme is operational   |
| <b>Swans Infrastructure (North Tyneside Council)</b><br>Regeneration at the Swans Enterprise Zone on the North Bank of the Tyne to increase the supply of industrial land and premises.  |                  |       |       |       |       |       |       |       |       |       | £ 8,000,000          | £18,000,000        | £ 162,862        | Revised business case under consideration                                |
| <b>Auckland Castle Welcome Building Enabling Works (Durham County Council)</b><br>Realigning the highway, diverting public utilities and enhancing the public realm between Bishop Auckland Market Place and Auckland Castle   |                  |       |       |       |       |       |       |       |       |       | £ 2,163,848          | £ 4,763,848        | £ 950,122        | Work on site commenced September 2016 for completion late 2017           |
| <b>Industrial Unit at Phase II, Intersect 19, Tyne Tunnel Trading Estate (UK Land Estates)</b><br>New build high quality industrial space on the Tyne Tunnel Trading Estate in North Tyneside  |                  |       |       |       |       |       |       |       |       |       | £ 1,359,322          | £ 4,616,707        | £ 46,254         | Work on site due to commence February 2017                               |
| <b>Monkton South Industrial Units (Hellens Developments)</b><br>New build high quality industrial space in South Tyneside  |                  |       |       |       |       |       |       |       |       |       | £ 1,270,999          | £ 4,236,664        | £ -              | Land acquisition and planning permission expected spring 2017            |
| <b>Durham City Incubator (Durham County Council)</b><br>Refurbishment of City Centre building to create incubation and business accommodation space  |                  |       |       |       |       |       |       |       |       |       | £ 1,250,000          | £ 3,900,000        | £ -              | Building acquired Autumn 2017, refurbishment to commence April 2017      |
| <b>East Sleekburn Site Reclamation &amp; Dock Works (Arch)</b><br>Remedial and site preparation works for Enterprise Zone site in Northumberland   |                  |       |       |       |       |       |       |       |       |       | £ 4,440,736          | £24,800,236        | £ -              | Site acquired, reclamation works to commence 2017/18                     |
| <b>Explorer - Netpark (Durham County Council)</b><br>New build of combined lab and office space for scientific based companies to rent out at NETPark in County Durham.  |                  |       |       |       |       |       |       |       |       |       | £ 3,200,000          | £ 7,196,002        | £ 94,676         | Work to commence on site February 2017                                   |
| <b>Sunderland Central Business District (Sunderland City Council)</b><br>Re-development of employment site in City centre (on the former Vaux site)  |                  |       |       |       |       |       |       |       |       |       | £10,800,000          | £25,412,656        | £ 1,102,521      | Site investigations complete, work on site to commence February 2017     |
| <b>River Tyne Economic Development (Newcastle City Council)</b><br>Activity to support the on-going development of the River Tyne through measures to mitigate environmental impacts of historical activity.   |                  |       |       |       |       |       |       |       |       |       | £ 6,000,000          | £ 9,035,000        | £ 2,169,566      | Works at former Tar Works substantially complete, other works ongoing    |

■ Approved and Contracted     
 ▲ Stage 1 budget approved for development costs

Local Growth Fund Programme: Project Progress Update - Quarter ending 31/12/2016

■ Pipeline stage  
■ Project feasibility and Business Case development  
■ Project approved and in construction phase  
■ Project live (construction complete) - monitoring period



| Project Details: Name (Grant Recipient) and brief description   | Activity by Year |       |       |       |       |       |       |       |       |       | Total LGF Allocation | Total Project Cost | LGF Paid to Date | Latest Position  |
|---|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------------|--------------------|------------------|--|
|   | 15/16            | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 |                      |                    |                  |  |
| <b>Transport</b>  |                  |       |       |       |       |       |       |       |       |       |                      |                    |                  |  |
| <span style="color: red;">■</span> <b>Lindisfarne Roundabout (South Tyneside Council)</b><br>Scheme to improve access routes around the Lindisfarne roundabout on the A19.  |                  |       |       |       |       |       |       |       |       |       | £ 6,105,704          | £ 7,555,704        | £ 2,643,173      | Work on site underway and due to be completed in Summer 2017         |
| <span style="color: red;">■</span> <b>Central Metro Refurbishment (Nexus)</b><br>Scheme that will transform the appearance, accessibility and functionality of the Central metro station in Newcastle.  |                  |       |       |       |       |       |       |       |       |       | £ 2,510,000          | £ 6,036,945        | £ 2,510,000      | Work on site substantially complete                                  |
| <span style="color: red;">▲</span> <b>Northern Access Corridor Phase 3 - Osborne Road to Haddrick's Mill (Newcastle City Council)</b><br>Improvement to roundabout and grade the Blue House junction to reduce levels of congestion and address issues for non-motorised modes  |                  |       |       |       |       |       |       |       |       |       | £ 4,429,000          | £17,930,000        | £ 326,957        | Design and feasibility works underway                                |
| <span style="color: red;">■</span> <b>Local Sustainable Transport Fund Programme (North East LEP area Local Authorities)</b><br>Various local transport schemes focusing on sustainable methods of transport, including cycle ways and improved traffic management systems to enable more reliable public transport links |                  |       |       |       |       |       |       |       |       |       | £ 7,500,000          | £ 7,620,000        | £ 3,486,567      | Programme is operational   |
| <span style="color: red;">■</span> <b>A19 employment corridor access improvements (North Tyneside Council)</b><br>A package of improvements to support the continued growth of Cobalt Business Park including bus, walking and junction improvements.   |                  |       |       |       |       |       |       |       |       |       | £ 4,700,000          | £ 5,107,000        | £ 572,628        | Work on site commenced December 2016                                 |
| <span style="color: red;">■</span> <b>A191 junctions - Coach Lane and Tyne View Park (North Tyneside Council)</b><br>Scheme provides benefits for westbound traffic and removes current capacity restrictions on this stretch of A191 including access to Quorum Business Park.   |                  |       |       |       |       |       |       |       |       |       | £ 1,499,000          | £ 1,699,000        | £ 1,347,668      | Work on site underway and due to be completed in Summer 2017         |
| <span style="color: red;">▲</span> <b>Newcastle Central Station to Stephenson Quarter (Newcastle City Council)</b><br>Improved pedestrian access to Stephenson Quarter development from Central Station.  |                  |       |       |       |       |       |       |       |       |       | £ 6,000,000          | £10,000,000        | £ 850,000        | Design and feasibility works underway                                |
| <span style="color: red;">■</span> <b>A1056-A189 Weetslade roundabout improvements and A1-A19 link (North Tyneside Council)</b><br>Works to enable future development of business park and improved access between A19 & A1   |                  |       |       |       |       |       |       |       |       |       | £ 4,330,000          | £ 4,811,000        | £ 2,464,834      | Work on site underway and will continue until Spring 2018            |
| <span style="color: red;">▲</span> <b>Scotswood Bridgehead (Newcastle City Council)</b><br>Improved access to Scotswood Bridge from the north, west and east to reduce congestion and road accidents.   |                  |       |       |       |       |       |       |       |       |       | £ 3,700,000          | £ 4,200,000        | £ 459,172        | Design and feasibility works underway                                |
| <span style="color: red;">▲</span> <b>South Shields Transport Hub (South Tyneside Council)</b><br>New and better metro/bus interchange as part of wider area regeneration plan  |                  |       |       |       |       |       |       |       |       |       | £ 9,400,000          | £16,180,000        | £ 1,600,000      | Design and land acquisition in progress                              |
| <span style="color: red;">■</span> <b>Sunderland Low Carbon Zone (Sunderland City Council)</b><br>Improved highway access to Enterprise Zone sites.   |                  |       |       |       |       |       |       |       |       |       | £ 5,950,000          | £12,948,000        | £ 4,097,879      | Work on site underway and due to be completed in Autumn 2017         |
| <span style="color: red;">■</span> <b>A1058 Coast Road (North Tyneside Council)</b><br>Norham Road Bridge replacement and access improvements along the Coast Road corridor.  |                  |       |       |       |       |       |       |       |       |       | £ 6,523,000          | £ 7,204,000        | £ 2,832,854      | Final phase of works (at Norham Road bridge) due to begin March 2017 |
| <span style="color: red;">■</span> <b>A167 Park and Ride corridor (Gateshead Council)</b><br>Park and Ride works in Gateshead   |                  |       |       |       |       |       |       |       |       |       | £ 4,999,000          | £ 7,460,000        | £ -              | Business Case in development   |
| <span style="color: red;">▲</span> <b>Northern Access Corridor Phase 2 - Cowgate to Osborne Road (Newcastle City Council)</b><br>Junction improvements  |                  |       |       |       |       |       |       |       |       |       | £ 4,090,000          | £ 8,100,000        | £ 3,680,000      | Work on site underway  |
| <span style="color: red;">■</span> <b>Horden Rail Station (Durham County Council)</b><br>Building of new rail station at Horden in County Durham  |                  |       |       |       |       |       |       |       |       |       | £ 3,340,000          | £10,500,000        | £ -              | Business Case in development   |
| <span style="color: red;">▲</span> <b>Traffic movements along A185/A194/A19 - The Arches (South Tyneside Council)</b><br>Traffic improvements to ease congestion and improve access to South Shields  |                  |       |       |       |       |       |       |       |       |       | £ 7,000,000          | £ 8,000,000        | £ -              | Design and land acquisition in progress                              |
| <span style="color: red;">■</span> <b>Metro Enhancements (Nexus)</b><br>Programme of works to improve the Tyne and Wear Metro system  |                  |       |       |       |       |       |       |       |       |       | £ 7,000,000          | £ 8,000,000        | £ -              | Business Case in development   |
| <span style="color: red;">■</span> <b>Southern Portal - Tyne Tunnel (South Tyneside Council)</b><br>Junction improvements at the South side of the Tyne Tunnel  |                  |       |       |       |       |       |       |       |       |       | £ 1,760,000          | £ 4,050,000        | £ -              | Business Case in development   |
| <span style="color: red;">■</span> <b>Blyth Cowpen Road (Northumberland County Council) <a href="#">click here for Full Business Case</a></b><br>Road layout and junction improvements to reduce congestion and improve journey times to key employment sites in Blyth  |                  |       |       |       |       |       |       |       |       |       | £ 600,000            | £ 741,500          | £ -              | Work on site due to commence March 2017                              |
| <span style="color: red;">▲</span> <b>A19 North Bank Tyne - Swans (North Tyneside Council)</b><br>Junction works to improve access to former Swan Hunters site  |                  |       |       |       |       |       |       |       |       |       | £ 4,700,000          | £ 4,700,000        | £ -              | Design and feasibility works underway                                |
| <span style="color: red;">■</span> <b>A1-A690 junction (Durham County Council)</b><br>Junction improvements   |                  |       |       |       |       |       |       |       |       |       | £ 1,500,000          | £ 2,000,000        | £ -              | Pipeline project   |
| <span style="color: red;">■</span> <b>A19/A189 Seaham Murton interchange (Durham County Council)</b><br>Junction improvements   |                  |       |       |       |       |       |       |       |       |       | £ 4,200,000          | £ 4,700,000        | £ -              | Pipeline project   |

■ Approved and Contracted

▲ Stage 1 budget approved for development costs



## North East Combined Authority

### Governance Committee

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**DATE:** 4 April 2017

**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:

- Progress against the delivery of the 2016/17 internal audit plan
- Agree an amendment to the 2016/17 audit plan
- Information on the implementation of audit recommendations

#### **RECOMMENDATIONS**

It is recommended that the Committee note the internal audit activity and agree the revision to the 2016/17 audit plan.

# North East Combined Authority

## Governance Committee

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### 1 Background Information

#### Progress with Delivery of the plan

- 1.1 The 2016/17 audit plan (Appendix 1) was agreed and included 5 pieces of audit work to be delivered by Newcastle City Council, 2 by Nexus and an additional audit of the North East LEP was added to be delivered by Sunderland City Council.
- 1.2 Since the last committee 2 audits have been completed, these are shown below and detailed in appendix 2.

| Assignment  | Level of Assurance |
|---|--------------------|
| North East Local Enterprise Partnership – Payment of loan and grants (including repayment of loans) | Substantial        |
| Tyne Tunnel Toll Income   | Substantial        |

- 1.3 The Audit Plan was agreed in April 2016 and included audits of NECA's Governance arrangements and Strategic Planning however during the year the envisaged devolution agreement was not reached reducing the significance of this work. It is therefore proposed that the remaining time in the audit plan be used to undertake an assurance mapping exercise. This exercise will aim to identify sources of assurance whether via external inspection or through internal arrangements operating within NECA. The exercise will be used to underpin the 2017/18 audit plan, support the Annual Governance Statement and give the Governance Committee a better understanding of sources of assurance within NECA's operations. This change to the plan is illustrated in Appendix 1.

#### Implementation of Outstanding Recommendations

- 1.4 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high and medium priority 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 current position as regards outstanding recommendations is detailed below:

|          | Audit and Recommendation   | Lead Officer/ Implementation due date                      | Progress update  |
|----------|--|--|--|
| <b>1</b> | <b>Financial Management</b>  |  |  |
| 1.1      | Formal SLAs are not in place for 2016/17 services provided to the Combined Authority by member authorities (medium). | Chief Finance Officer<br><br>Original Date<br>1 April 2017 | The Chief Finance Officer will ensure that formal SLAs are in place for all services provided to the Combined Authority by member authorities for 2017/18. |

# North East Combined Authority

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|          |  |   |   |
|----------|--|---|---|
| <b>2</b> | <b>Major Projects</b>  |   |   |
| 2.1      | To enable appropriate approval and monitoring of all major projects, the definition of a major project should be established and an overarching register of all major projects undertaken on behalf of the NECA should be held. (medium)   | Head of Paid Service/Chief Finance Officer<br><br>Original date<br>1 April 2016<br><br>Revised date<br>1 April 2017 | This has been agreed and discussions are in progress to develop a definition and register.  |
| 2.2      | The protocols referred to in the Constitution for the discharge of the transport, and economic development and regeneration functions should be developed and approved with the appropriate bodies. A timescale for developing and agreeing the protocols should be agreed and progress monitored against it. (medium) | Head of Paid Service<br><br>Original date<br>1 April 2016<br><br>Revised date<br>1 January 2018                     | Work will commence to develop these protocols when there is greater certainty around the structure and future Governance of NECA. |

## **2 Next Steps**

2.1 This work feeds into the Annual Governance Statement for 2016/17.

## **3 Potential Impact on Objectives**

3.1 No direct impact on objectives.

## **4 Finance and Other Resources**

4.1 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.

## **5 Legal**

5.1 No direct legal implications arising specifically from the report.

# North East Combined Authority

## Governance Committee

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### **6 Other Considerations**

#### **6.1 Consultation/Community Engagement**

No external consultation or community engagement required.

#### **6.2 Human Rights**

No implications under the Human Rights Act 1998 (or as amended).

#### **6.3 Equalities and Diversity**

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

#### **6.4 Risk Management**

A risk assessment has taken place to identify key areas for inclusion within the Internal Audit Annual Plan. Members assess the plan to determine if key risks are covered by the planning process.

#### **6.5 Crime and Disorder**

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

#### **6.6 Environment and Sustainability**

There are no environment and sustainability implications directly arising from this report.

### **7 Background Documents**

#### **7.1 Final Internal Audit Reports**

### **8 Links to Plans in the Policy Framework**

#### **8.1 No direct link to the Policy Framework.**

### **9 Appendices**

#### **9.1 Appendix 1 – 2016/17 audit plan**

#### **9.2 Appendix 2 - Audit Activity since December 2016**

### **10 Contact Officers**

#### **10.1 Philip Slater, Audit, Risk and Insurance Service Manager**

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Tel: 0191 2116511

# North East Combined Authority

## Governance Committee

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### 11 Sign off

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

# North East Combined Authority

## Governance Committee

| <b>Appendix 1 - Progress with 2016/17 Audit Plan</b>                           |  |             |               |   |
|--|--|-------------|---------------|---|
| <b>Audit</b>   | <b>Audit scope and coverage</b>  | <b>Days</b> | <b>Status</b> | <b>Date to report to Governance Committee</b>       |
| Financial Management   | Audit coverage included the adequacy of financial arrangements for the overall Combined Authority and processes in place within Newcastle City Council in relation to Tyne and Wear transport financial systems.   | 4           | Complete      | December 2016                                       |
| Partnerships   | To assess whether significant partnership arrangements are effective by considering whether: <ul style="list-style-type: none"> <li>Partnerships clearly align with corporate objectives</li> <li>Formal governance arrangements are in place</li> <li>Performance management arrangements have been established and are monitored.</li> </ul> | 8           | Complete      | December 2016                                       |
| North East Local Enterprise Partnership (delivered by Sunderland City Council) | To review the arrangements for loans and grants to other organisations, specifically in terms of loan repayment, process, governance and transparency.   | -           | Complete      | Original Date - December 2016 revised to April 2017 |
| Strategic Planning   | To assess the adequacy and effectiveness of business planning arrangements and ensure they remain valid in light of potential risks and opportunities as identified in the Combined Authority's risk register.   | 5           |               | Replaced by assurance mapping                       |
| Governance   | Review of the operation of governance arrangements in place and provide appropriate advice to officers establishing  | 4           |               | Replaced by assurance mapping                       |

# North East Combined Authority

## Governance Committee

|                               |   |   |             |               |
|-------------------------------|---|---|-------------|---------------|
|                               | processes for reporting and monitoring.   |   |             |               |
| Assurance Mapping             | Development of an assurance map for NECA  |   | To start    | June 2017     |
| Tyne Tunnel Toll Income       | Assess the adequacy and effectiveness of contract monitoring including toll income.   | 4 | Complete    | April 2017    |
| Concessionary Travel          | Assurance obtained from Nexus's Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.  | - | In Progress | June 2017     |
| Metro Re-Invigoration         | Assurance obtained from Nexus's Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.  | - | In Progress | June 2017     |
| Contingency                   | Provision to cover emerging risks, fraud investigation and general advice.  |   | As required |               |
| Local Growth Fund Grant Claim | Time from contingency allocation  | 5 | Complete    | December 2016 |
| Procurement investigation     | Time from contingency allocation  |   | Complete    | December 2016 |
| Governance Committee Support  | <ul style="list-style-type: none"> <li>• Development and monitoring delivery of the Internal Audit Annual Plan.</li> <li>• Preparation of reports to and attendance at Governance Committee.</li> <li>• Follow up on the implementation of recommendations made within Internal Audit reports.</li> <li>• Provide training for Members</li> </ul> | 5 | As required |               |

# North East Combined Authority

## Governance Committee

| <b>Appendix 2 – Audit Activity since December 2016</b>  |                    |                        |               |   |            |
|---|--------------------|------------------------|---------------|---|------------|
| <b>Audit</b>  | <b>Assessment</b>  | <b>Recommendations</b> |               |   |            |
|   |                    | <b>High</b>            | <b>Medium</b> | <b>Low</b>  | <b>VFM</b> |
| <b>Tyne Tunnel Toll Income</b>  | <b>Substantial</b> | -                      | -             | 1   | -          |
| <b>Audit objectives and scope</b>   |                    |                        |               |   |            |
| <p>The overall objective of the audit was to assess whether significant risks in relation to collection and accounting for toll income are adequately and effectively controlled. This was done through review of the following objectives:</p> <ul style="list-style-type: none"> <li>• There is a contract in place setting out arrangements for collection of toll income, performance standards and transfer of monies into the Combined Authority bank account.</li> <li>• Toll income is collected, counted and banked in full and in line with the agreed contract.</li> <li>• Toll income is promptly allocated to relevant income codes, reconciled against expected amounts with discrepancies being investigated and promptly resolved.</li> <li>• Procedures operate efficiently.</li> </ul>  |                    |                        |               |   |            |
| <b>Internal Audit work undertaken was as follows:</b>   |                    |                        |               |   |            |
| <p>Discussions were held with the Principal Accountant (NECA / Newcastle City Council), Monitoring Officer – New Tyne Crossing (NECA), Supervisor, Internal Banking Section (Newcastle City Council) and Service Manager, Civic Facilities (Newcastle City Council)</p> <p>Evaluation of current systems and controls through review and testing of:</p> <ul style="list-style-type: none"> <li>• Contractual arrangements between TT2, the Combined Authority and Newcastle City Council for the cash collection and banking service.</li> <li>• Security arrangements around the receipt of toll vaults and counting / banking of vault contents.</li> <li>• All Cash in Transit (CIT), count, and banking documentation relating to toll booth coinage income collected for a sample of 3 days in 2016/17.</li> <li>• Arrangements for the checking and authorisation of the Monthly Usage Payment Invoice.</li> <li>• Arrangements for the monitoring of the payments swept into the NECA account for permit income and the calculation of the toll surplus. This includes monthly budget monitoring for tolls income which includes arrangements for reconciling income received to expected income to provide a reasonableness check that the income is complete and accurate.</li> </ul> |                    |                        |               |   |            |
| <b>Assurances</b>   |                    |                        |               | <b>Control weaknesses and opportunities to enhance efficiency and value for money</b> |            |
| <p>Contractual arrangements are in place for Tyne Tunnel cash collection to March 2020.</p> <p>Collections take place in line with an agreed schedule<br/>                     Arrangements for security of cash during the collection/ counting/ banking phases are robust and appropriate</p>   |                    |                        |               | None  |            |



# North East Combined Authority

## Governance Committee

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|--|--|
| <p>Relevant reports are provided to TT2 confirming income counted and any discrepancies are promptly investigated</p> <p>Coin income received is posted correctly, and accounting and reconciliation arrangements are appropriate</p> <p>All permit income received by TT2 is swept to the NECA account on a daily basis</p> <p>Checking and authorisation of the Monthly Usage Payment Invoice is in line with the Payment Mechanism as set out in the New Tyne Crossing Project Agreement</p> <p>Sense checks of expected income based on traffic flows compared with actual income received</p> |  |
|--|--|

# North East Combined Authority

## Governance Committee

| <b>Appendix 2 – Audit Activity since December 2016</b>  |                   |  |               |            |
|---|-------------------|--|---------------|------------|
| <b>Audit</b>  | <b>Assessment</b> | <b>Recommendations</b>   |               |            |
|   |                   | <b>High</b>  | <b>Medium</b> | <b>Low</b> |
| North East Local Enterprise Partnership – Payment of loan and grants (including repayment of loans)   | Substantial       | -  | -             | 1          |
| <b>Audit objectives and scope</b>   |                   |  |               |            |
| <p>The objective of the audit was to provide assurance on the effectiveness of the arrangements the NELEP has put in place for the awarding of loans and/or grants to other organisations, specifically in terms of scheme governance, transparency, process and loan repayment.</p> <p>The scope of the audit included a review of the following areas:</p> <ul style="list-style-type: none"> <li>• Policies and procedures;</li> <li>• Roles and responsibilities;</li> <li>• Governance arrangements (including the delegation of decision-making);</li> <li>• Process for awarding loans and grants through the North East Investment Fund and Local Growth Fund;</li> <li>• Monitoring and reporting;</li> <li>• Repayment of loans.</li> </ul> |                   |  |               |            |
| <b>Internal Audit work undertaken was as follows:</b>   |                   |  |               |            |
| <p>Through discussions with management, key risks to the achievement of the objectives of the area under review were identified. The key controls to manage those risks were then identified, assessed for adequacy and tested to confirm whether they are operating as planned. Discussions were held with the Chief Operating Officer (NELEP); Programme Manager (NELEP); Principal Accountant (Sunderland City Council) and Senior Funding and Commercial Officer (Sunderland City Council).</p>   |                   |  |               |            |
| <b>Assurances</b>   |                   | <b>Control weaknesses impacting on assurance and recommendations (High and Medium)</b> |               |            |
| <p>Discussions with officers responsible for providing management and administrative support to the NELEP confirmed they are clear on the detail and extent of their role and responsibilities.</p> <p>Governance/Delegation arrangements are considered appropriate and from an examination of evidence for a sample of current schemes, are being effectively applied.</p> <p>NELEP Board members declare their interests and a register of all such interests is maintained.</p> <p>The systems and procedures agreed by the NELEP for the award of loan and grant funding are being appropriately applied</p>   |                   | None identified  |               |            |

## North East Combined Authority

### Governance Committee

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**DATE:** 4 April 2017

**SUBJECT:** Strategic Risk and Opportunities 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 and Opportunities for the North East Combined Authority.

The Authority's Strategic Risk Register has been reviewed as a result of the uncertainty surrounding future membership of the North East Combined Authority. A new risk which will monitor the future effectiveness of the Authority, if its membership is reduced, has now been included in the risk register.

The risks which monitor availability of European Funding and Operational Capacity have also been reviewed and their risk priorities reduced.

The Governance risk has been removed from the register. The current Governance arrangements are in place and operational, and the biggest threat is now around the future effectiveness of the Authority if its membership is reduced.

Appendix A – 'Risk at a glance' summarises the changes for the Committee. Appendix B of this report highlights the new risk and updated risks and the controls to manage them.

#### **RECOMMENDATIONS**

Governance Committee are asked to:

- Review and where necessary challenge the outcomes of the strategic risk review, as well as highlight additional risks that may need to be considered for inclusion
- Acknowledge the new risk which will monitor the future effectiveness of the Authority if there is a change to its membership
- Acknowledge the risk priorities of the European Funding and Operational Capacity risks have been reduced

# North East Combined Authority

## Governance Committee

### 1 Background Information

- 1.1 Following the Leadership Board's decision not to proceed with a Mayoral Combined Authority and the withdrawal of the devolution deal and agenda, the Authority continues to function under the current operating model. However a new risk which will monitor the future effectiveness of the Combined Authority has been included in the risk register. It describes how the future effectiveness of the Authority may be adversely impacted by the uncertainty surrounding future membership.
- 1.2 The risk which monitors the Authority's operational capacity has been reviewed and the likelihood of the risk materialising reassessed as medium. Therefore the risk priority has reduced from Red 16 to Red 12, acknowledging approval of the 2017/18 budget and recognition of the capacity and political commitment risks.
- 1.3 The priority of the risk which describes the future of European funding has also been reviewed and reduced from Red to Amber. The North East Local Enterprise Partnership and the Combined Authority are working with the Department for Communities and Local Government (DCLG) to ensure maximum funding will be allocated to the North East allowing spend on European Social Investment Fund Projects whilst the UK remains part of the European Union and beyond.
- 1.4 The Governance risk has been removed from the register. The current Governance arrangements are in place and operational, however the biggest threat is now around the future effectiveness of the Authority if its membership is reduced.
- 1.5 Appendices A and B provide the Committee with details of each risk. The Toolkit at Appendix C is used to determine the risk priority.
- 1.6 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 continue to report to the Transport North East (Tyne and Wear) Sub Committee.

### 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 Governance Committee at 3 monthly intervals, utilising support from officers.

### 3 Next Steps

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

# North East Combined Authority

## Governance Committee

### **4 Potential Impact on Objectives**

- 4.1 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.

### **5 Finance and Other Resources**

- 5.1 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.

### **6 Legal**

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

### **7 Other Considerations**

#### **7.1 Consultation/Community Engagement**

Following development of the strategic risk register, a risk management agenda item will be added to the Governance Committee's forward plan and the risks and opportunities will be reviewed every 3 months.

#### **7.2 Human Rights**

There are no Human Rights implications directly arising from this report

#### **7.3 Equalities and Diversity**

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

#### **7.4 Risk Management**

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

#### **7.5 Crime and Disorder**

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

#### **7.6 Environment and Sustainability**

There are no environment and sustainability implications directly arising from this report.

### **8 Background Documents**

- 8.1 There are no background documents

### **9 Links to Plans in the Policy Framework**

- 9.1 The Risk Management Policy and Strategy and approach to strategic risk management going forward, will support delivery of the Strategic Economic Plan

# North East Combined Authority

## Governance Committee

and Local Transport Plans, by acknowledging the biggest threats to their delivery.

### 10 Appendices

- Appendix A – ‘Risk at a glance’ shows the closed and live risks and the risk priority
- Appendix B – Provides a detailed assessment of the strategic risks and future activity to reduce the overall risk exposure
- Appendix C – Risk Analysis Toolkit determines the risk priority

### 11 Contact Officers

- 11.1 Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council. [Philip.slater@newcastle.gov.uk](mailto:Philip.slater@newcastle.gov.uk).  
Telephone - 0191 2116511

### 12 Sign off

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

# North East Combined Authority

## Governance Committee

| Risk at a glance         | Appendix A    |
|--------------------------|---------------|
| Risk Title & Description | Risk Priority |

| Live Risks   |                |                       |
|--|----------------|-----------------------|
| <p><b>Effectiveness</b><br/>The future effectiveness of the Combined Authority may be adversely impacted by the uncertainty surrounding future membership of the North East Combined Authority.</p>  | <b>Red 12</b>  | New Risk              |
| <p><b>European Funding</b><br/>Failure to secure the notional funding previously identified through European Structural Investment Funding Scheme will jeopardise delivery of the Strategic Economic Plan.</p>   | <b>Amber 8</b> | Risk priority reduced |
| <p><b>Operational Capacity and Resourcing</b><br/>The Combined Authority is unable to demonstrate to Government and partners that it has the necessary political commitment and operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p> | <b>Red 12</b>  | Risk priority reduced |

| Closed Risks   |  |
|--|--|
| <p><b>Governance Arrangements</b><br/>Governance of the Combined Authority may no longer be effective following the decision of the Leadership Board not to proceed with a Mayoral Combined Authority.</p> | <p><b>Risk Closed</b><br/>Governance arrangements are in place and operational</p> |

# North East Combined Authority

## Governance Committee

### Appendix B

|   |   |
|---|---|
| <p><b><u>Effectiveness</u></b></p> <p>The future effectiveness of the Combined Authority may be adversely impacted by the uncertainty surrounding future membership of the North East Combined Authority.</p>   | <p><b><u>Risk Owner</u></b><br/>Interim Head of Paid Service</p> <p><b><u>Risk Score</u></b></p> <p style="background-color: red; color: white; text-align: center;"><b>Red 12</b></p> <p>Likelihood – Medium<br/>Impact - Critical</p> |
| <p><b>Cause:</b><br/>The Authority’s decision not to proceed with a Mayoral Combined Authority and the withdrawal of the devolution deal has resulted in the North of Tyne Authorities considering a future North of Tyne area deal.</p>  |   |
| <p><b>Impact/Consequence:</b><br/>The Authority may no longer continue to operate as effectively due to a reduced membership and changes to its boundaries.</p>   |   |
| <p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The Constitution covers the current operating model</li> <li>• The Order provides for the existence of the NECA and specifies its current membership and functions</li> <li>• There is an agreed schedule/programme of meetings involving Leaders, Chief Executive’s and Economic Directors</li> <li>• Formal decision making committees including Leadership Board, Transport and Governance</li> <li>• 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.</li> <li>• The Strategic Economic Plan has been refreshed by the North East LEP to ensure the economic priorities remain current, reflecting the region’s economic position</li> <li>• 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</li> <li>• The appointment of the Commission for Health and Social Care integration for the North East. Set up by the NHS and NECA to identify opportunities for further collaboration and integration to improve the health and wellbeing of residents and reduce health inequalities across the North East</li> </ul> |   |
| <p><b><u>Next Steps</u></b></p> <ul style="list-style-type: none"> <li>• Identify the potential impacts an alternative devolution deal would have on the current governance and working arrangements of NECA</li> <li>• Understand the legal and decision making process associated with the potential changes to NECA that a North of the Tyne devolution deal will bring</li> </ul>   |   |



# North East Combined Authority

## Governance Committee

|   |  |
|---|--|
| <p><b><u>European Funding</u></b></p> <p>Failure to secure the notional funding previously identified through European Structural Investment Funding Scheme will jeopardise delivery of the Strategic Economic Plan.</p>  | <p style="text-align: center;"><b><u>Risk Owner</u></b><br/>Interim Head of Paid Service</p> <p style="text-align: center;"><b><u>Risk Score</u></b></p> <p style="text-align: center; background-color: yellow;"><b>Amber 8</b></p> <p style="text-align: center;">Likelihood - Medium<br/>Impact – Low</p> |
| <p><b>Cause:</b><br/>Government’s plans to release European funding following the referendum result to leave the European Union have changed and the availability of future funding opportunities are more constrained.</p>   |  |
| <p><b>Impact/Consequence:</b><br/>The ability to secure European funding risks damaging local regeneration plans and stalling infrastructure projects, 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><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• Government have given assurances that key projects supporting economic development will be honoured if they are signed before the Autumn Statement</li> <li>• Government have also set out criteria for further projects to be approved whilst the UK is still within the EU, which allows projects to access further ESIF.</li> <li>• The Combined Authority and the North East LEP have secured £58.5m of JEREMIE 2 grant funding (part of the European Structural Fund) and the creation of a Special Purpose Vehicle has been established to deliver the projects, supporting small and medium sized enterprises</li> <li>• The North East LEP and NECA have set up a working group of partners to maximise the access to and retention of ESIF in the North East.</li> <li>• The Strategic Economic Plan has been refreshed to ensure its priorities remain current and in line with the Order and the Scheme. 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</li> </ul> |  |
| <p><b><u>Next Steps:</u></b></p> <ul style="list-style-type: none"> <li>• The North East LEP and NECA are working with the Managing Authority (DCLG) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of £437m. This is in line with the parameters now set by Government and the ability to spend ESIF on projects whilst the UK is in the EU, and some projects to spend after leaving the EU.</li> </ul>   |  |

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| <p><b><u>Operational Capacity and Resourcing</u></b></p> <p>The Combined Authority is unable to demonstrate to Government and partners that it has the necessary political commitment and operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p>  | <p><b><u>Risk Owner</u></b><br/>Interim Head of Paid Service</p> |
|   | <p><b><u>Risk Score</u></b></p>                                  |
|   | <p><b>Red 12</b></p>   |
|   | <p>Likelihood – Medium<br/>Impact - Critical</p>                 |
| <p><b>Cause:</b><br/>The uncertainty following the withdrawal of the devolution deal has contributed to:</p> <ul style="list-style-type: none"> <li>• The Authority's commitment to secure permanent senior staff and secondment opportunities, resulting in key officer disciplines and resource requirements being at risk</li> <li>• The Authority's commitment to the scope and objectives being at risk</li> <li>• The North of Tyne proposal may result in current officer resources being reduced</li> </ul>   |  |
| <p><b>Impact/Consequence:</b><br/>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><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The appointment of the North East LEP's Chief Operating Officer to the position of Interim Head of Paid Service has further strengthened the partnership arrangements between the North East LEP and the Combined Authority</li> <li>• Service Level Agreements continue to provide key officer support to Statutory Officers and Leadership Board</li> <li>• 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</li> </ul>  |  |
| <p><b><u>Next Steps:</u></b></p> <ul style="list-style-type: none"> <li>• On behalf of the Leadership Board, Economic Directors Group have put in place a significant programme of work, looking at the impact of Brexit on the economy, Local Authority finances and the region more widely, working with the business community to:             <ul style="list-style-type: none"> <li>▪ Understand the impact on economy, property markets and the labour market</li> <li>▪ Understand the picture and local intelligence</li> <li>▪ Understand the impact on inward investment activity</li> <li>▪ Identify key asks for Brexit negotiations</li> <li>▪ European funding (levels of spend and issues)</li> <li>▪ Post EU regeneration funding asks</li> </ul> </li> <li>• The Leadership Board has agreed a budget for 2017/18</li> <li>• As part of the budget process Chief Executives and the Interim Head of Paid Service identified the risks relating to capacity and political commitment</li> </ul> |  |

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### Appendix C

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<br>Page 88 | <ul style="list-style-type: none"> <li>Over half the objectives/programmes affected</li> <li>More than one critical objective affected</li> <li>Partners do not commit to the Shared vision</li> </ul> | <ul style="list-style-type: none"> <li>Significant change in partner services</li> <li>Relationship breakdown between major partners and stakeholders</li> <li>Serious impact on delivery of Strategic Investment Plans</li> <li>Unplanned major re-prioritisation of resources and/or services in partner organisations</li> <li>Failure of a delivery programme/major project</li> </ul> | <ul style="list-style-type: none"> <li>Inability to secure or loss of significant funding opportunity (£5m)</li> <li>Significant financial loss in one or more partners (£2m)</li> <li>Significant adverse impact on budgets (£3m – Transport / NELEP; £0.2m Central Budget)</li> </ul> | <ul style="list-style-type: none"> <li>Adverse national media attention</li> <li>External criticism (press)</li> <li>Significant change in confidence or satisfaction of stakeholders</li> <li>Significant loss of community confidence</li> </ul>   |
| Significant                      | <ul style="list-style-type: none"> <li>One or more objectives/programmes affected</li> <li>One or more partners do not commit to shared vision</li> <li>Significant environmental impact</li> </ul>    | <ul style="list-style-type: none"> <li>Partner unable to commit to joint arrangements</li> <li>Recoverable impact on delivery of Strategic Economic Plan</li> <li>Major project failure</li> </ul>   | <ul style="list-style-type: none"> <li>Prosecution</li> <li>Change in notable funding or loss of major funding opportunity (£2m)</li> <li>Notable change in a Partners contribution</li> <li>Notable adverse impact on budget (£0.5m-£1.5m Transport or NELEP budgets)</li> </ul>       | <ul style="list-style-type: none"> <li>Notable external criticism</li> <li>Notable change in confidence or satisfaction</li> <li>Internal dispute between partners</li> <li>Adverse national/regional media attention</li> <li>Lack of partner consultation</li> <li>Significant change in community confidence</li> </ul> |
| Minor                            | <ul style="list-style-type: none"> <li>Less than 2 priority outcomes adversely affected</li> <li>Isolated serious injury/ill health</li> <li>Minor environmental impact</li> </ul>                     | <ul style="list-style-type: none"> <li>Threatened loss of partners commitment</li> </ul>   | <ul style="list-style-type: none"> <li>Minor financial loss in more than one partner</li> <li>Some/loss of funding or funding opportunity threatened</li> </ul>   | <ul style="list-style-type: none"> <li>Failure to reach agreement with individual partner</li> <li>Change in confidence or satisfaction</li> <li>Minor change in community confidence</li> </ul>   |

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