



North East Combined Authority, Governance Committee

Tuesday 4th July, 2017 at 2.00 pm

Meeting to be held: Gateshead Council, Civic Centre, Regent Street, Gateshead NE8 1HH

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AGENDA

	Page No
1. Apologies for absence	
2. Declarations of Interest	
Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer).	
Please also remember to leave the meeting where any personal interest requires this.	
3. Minutes of Previous Meeting held on 4 April 2017	1 - 6
4. Governance Committee Self-Assessment Feedback	7 - 14
5. 2016-17 Outturn and Key Financial Statements	15 - 36
6. External Audit Progress Update	37 - 48
7. Draft Annual Governance Statement 2016/17	49 - 64
8. Internal Audit 2016/17 Annual Report and Internal Audit Plan 2017/18 to 2018/19	65 - 74
9. Strategic Risk Register and Opportunities Register	75 - 84

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

Tuesday 12 September 2017 at 2.00pm at Durham County Council

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

4 April 2017

(2.00 - 3.05 pm)

Meeting held Sunderland Civic Centre, Burdon Rd, Sunderland SR2 7DN

Present:

Councillor: M Scrimshaw (Chair)

Councillors: G Clark, E Bell, G Hobson and H Trueman

The Chair welcomed everyone to the meeting and advised the committee that the meeting was inquorate, with members and their reserves having submitted apologies.

38 APOLOGIES FOR ABSENCE

Apologies for absence were received from A Dale (Northumberland), H Haran (Gateshead), C Johnson (North Tyneside), M Talbot (Newcastle) and S Gardner (Independent Person).

39 DECLARATIONS OF INTEREST

None

40 MINUTES OF PREVIOUS MEETING HELD ON 6 DECEMBER 2017

IT WAS AGREED – That the Minutes of the previous meeting would be ratified at the next scheduled meeting.

41 FUTURE CHANGES TO THE GOVERNANCE COMMITTEE

Submitted: Report by Chief Monitoring Officer (previously circulated and a copy attached to official minutes), which advised 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 required that the appointment of the Members to the Committee was on the political balance across the areas of the North East Combined Authority as a whole. The Order came into force on 8 May 2017.

V Geary introduced the report, highlighting that in order to ensure regional political balance the NECA would advise each Constituent Authority on the type of nomination to be submitted.

P Slater provided an update on the questions to be included in the Self-Assessment survey and advised the committee that there were now 11 questions, with one additional 'catch-all' question still to be included.

In discussion the following points were raised:

- In response to a query raised, V Geary explained that regional political balance would be calculated on a proportional basis and that the authorities with the largest proportion (not number) of opposition members would be asked to make those nominations.
- On a point of clarification, V Geary advised that only the NECA Overview and Scrutiny Committee would have the power to call in decisions of the NECA.

A further query was raised about the remit of the Governance Committee. V Geary advised members that the remit of the Committee was to oversee Audit and Standards. The Chair suggested that if there were any specific issues that members wanted to have a discussion about, they should request that the item be included on a future agenda and that the Monitoring Officer would clarify whether or not it fell within the remit of the Committee.

- The Chair thanked officers for their work on producing the Self-Assessment Survey questions, and suggested that the survey be circulated to committee members for completion and any additional issues addressed at a later date.

It was further suggested that officers who regularly attended meetings of the committee, and any new committee members appointed at the Annual Meeting in June 2017, should also be given the opportunity to respond and that an additional question should be added to differentiate between officer and members responses.

Officers agreed to circulate the Self-Assessment Guidance document and a link to the online survey to all Committee members and regular officers by the beginning of the following week, and to bring back a report on the outcome of the survey to the next scheduled meeting in July 2017.

IT WAS AGREED – That the information in the report be noted.

42 **ACCOUNTING POLICIES FOR 2016/17 ACCOUNTS AND CODE OF PRACTICE UPDATE**

Submitted: Report by Chief Finance Officer (previously circulated and copy attached to official minutes), which updated 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.

E Goodman introduced the report and highlighted that there was to be a dry run of the revised deadlines for completion and sign off of audit and accounts in 2016/17.

During discussion the following points were raised:

- The committee noted that the timescale for approval of the draft accounts in 2018 could be challenging as it would require a meeting to take place in late May.

C Waddell advised members that there was no requirement for the committee to approve the draft accounts, and that an alternative approach would be to arrange an informal briefing session. The Chair expressed his thanks for the useful advice, but felt that the committee would prefer to meet formally and to have the opportunity to comment on the draft.

IT WAS AGREED – That the committee approved the use of the Accounting Policies presented in the preparation of the 2016-17 Statement of Accounts.

43 **FINANCE UPDATE**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which updated on several financial matters which had 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.

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

- In response to a query about spending of Local Growth Fund money P Woods advised that the money not yet spent from the total amount available in 2016/17 had been earmarked for specific projects, but that those projects had slipped. He confirmed the resources were protected and that the money was likely to be spent in the next financial year.
- On a point of clarification, P Woods advised that NECA would not be the accountable body for 'The North East Fund' as it had been established as a Special Purpose Vehicle (SPV) with its own Board. Members requested that further details on the governance of the SPV be included in the minutes of the meeting.
- On a point of clarification, P Woods advised that employee contributions to the pension fund were governed by a national scheme and would continue as normal.

IT WAS AGREED – That the report be received and the information noted.

44 **EXTERNAL AUDIT PROGRESS UPDATE**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes) presented the Audit Strategy Memorandum of the External Auditors to NECA, Mazars – attached at Appendix 1. This set out the audit plan in respect of the audit of NECA for the year ending 31 March 2017.

C Waddell, External Auditor, introduced the report explaining that the content was broadly the same as the previous year but that there had been some changes to the format to make it more reader friendly.

IT WAS AGREED – That the External Audit report be received and the information noted.

45 **NORTH EAST LEP LOANS AND GRANTS**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which provided an update on the North East Investment Fund (NEIF) performance and the inclusion of new schemes in the NEIF programme during 2016/17. The update built upon the NEIF presentation to the July 2016 meeting of the Governance committee presented by the NECA Chief Finance Officer. The report also included information requested by the Committee regarding the Local Growth Fund programme, which began in 2015/16.

P Woods introduced the report, highlighting the key issues and concerns.

IT WAS AGREED – That the

- i. Report on LGF grant and BEIF loans be received and the information noted.
- ii. 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 the report be noted.

46 **INTERNAL AUDIT PROGRESS REPORT**

Submitted: Report by Audit, Risk and Insurance Manager (previously circulated and copy attached to official minutes), which provided members with progress against the delivery of the 2016/17 internal audit plan and sought agreement from the committee on an amendment to the 2016/17 audit plan and to note information on the implementation of audit recommendations.

P Slater introduced the report, highlighting the addition to the 2016/17 Audit Plan of an exercise to map where assurance sits across NECA with a report to be brought back to the July meeting on the outcome of the exercise. On a point of clarification, E Goodman advised that the formal SLAs were all expected to be in place within the following two weeks.

IT WAS AGREED – That the:

- i. Internal Audit activity report be received and the information noted.
- ii. Revision to the 2016-17 audit plan be agreed.

47 **STRATEGIC RISKS AND OPPORTUNITIES REGISTER**

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

P Slater introduced the report and highlighted the changes from the previous version. On a point of clarification he advised that the downgrading of the risk round European Funding related to the status of the current fund, and not to arrangements post-Brexit.

IT WAS AGREED – That the:

- i. Risk and Opportunities register be received and the information be noted.
- ii. New risk which would monitor future effectiveness of the Authority if there was a change to its membership was acknowledged.
- iii. Risk priorities of the European Funding and Operational Capacity risks being reduced was acknowledged.

48 **DATE AND TIME OF NEXT MEETING**

The proposed dates for 2017-18, as follows were noted:

Tuesday 4 July 2017 – 2.00pm
Tuesday 12 September 2017 – 2.00pm
Tuesday 5 December 2017 – 2.00pm
Tuesday 3 April 2018 – 2.00pm

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Governance Committee Self-Assessment Feedback

North East Combined Authority

June 2017



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01 Introduction

Introduction

In spring 2017, at the Governance Committee's request, we undertook a self-assessment survey to gather thoughts on how well the Governance Committee is performing and what improvements could be made. The survey was sent to both:

- members of the Governance Committee; and
- officers who regularly attend the Governance Committee.

This document has been prepared to communicate the findings of our survey for discussion at the next meeting of the Governance Committee.

The results are split into two sections as follows:

- Section 02 of this report provides an analysis of the results for each question;
- Section 03 of this report provides a summary of actual comments made in relation to each question.

02 Survey results by question

The survey was sent to 14 people and 11 responded, a response rate of nearly 80%. Of those 11 people:

- Six were members of NECA's Governance Committee;
- Five were officers who regularly attend the NECA Governance Committee.

The tables that follow show that responses to all of the questions were positive with only a small number of 'don't knows' in relation to certain questions. The 'don't knows' relate to comments around training, which are set out in the section that follows.

Question	Yes	No	Don't know
Do you feel the composition, experience and establishment of the committee allows it to fully perform its role?	9	0	2
Do you understand the committee's role in relation to internal control and risk management?	11	0	0
Do you feel the committee can support the quality and delivery of Internal Audit and receives adequate information on performance and delivery?	10	0	1
Do you feel the committee can support the quality and delivery of External Audit and receives adequate information on performance and delivery?	11	0	0
Do you understand the committee's role in relation to Counter Fraud?	9	0	2
Do you understand the committee's role in relation to Annual accounts and disclosure statements?	11	0	0
Do you understand the committee's role in relation to standards and conduct?	10	0	1

Question	Strongly agree	Agree	Disagree	Unable to answer
Do you feel the Committee's focus is correct?	1	9	1	0
Do you feel the Committee operates effectively?	2	9	0	0
Do you feel the Committee's engagement with management and Members is effective?	1	9	0	1
Do you feel the Committee's leadership is effective?	5	6	0	0

03 Summary of comments by question

Do you feel the composition, experience and establishment of the committee allows it to fully perform its role?

Member comments	Officer comments
I am not sure of the training undertaken by members for this role, though those who attend do seem to understand the issues. It's complicated by the peculiar situation of NECA and the lack of clarity on its future.	It is helpful having elected members who are also audit committee members/chairs of their constituent authorities who can bring experience particularly in areas such as scrutiny of the accounts and internal audit functions. Attendance can sometimes be an issue. If a member misses a meeting there may be six months until the next, which can lead to the same points being raised that were covered at previous meetings and a slight Groundhog Day feeling.
Each Council is represented and the Chair and Vice chair are independent.	
It is vital that all the LAs are represented by committed members, and that they (or their substitute) attend as often as possible.	
When the Councillors turn up and make us quorate.	

Do you understand the committee's role in relation to internal control and risk management?

Member comments	Officer comments
External auditors report is scrutinised and comments made upon it.	None
More liaison with Scrutiny would be most useful, there is little or none at present.	

Do you feel the committee can support the quality and delivery of internal audit and receives adequate information on performance and delivery?

Member comments	Officer comments
See above re training.	I'm not aware that the Committee has received anything specific on how it measures and assesses the quality of IA work.
The committee receives regular reports from the Internal auditor.	
I feel that we do this and that we get plenty of audit material and feedback.	

Do you feel the committee can support the quality and delivery of external audit and receives adequate information on performance and delivery?

Member comments	Officer comments
See above re training.	None
The committee receives the external audit report for their approval and is encouraged to discuss the findings.	
External auditors are regular attendees and give plentiful info.	

Do you understand the committee's role in relation to counter fraud?

Member comments	Officer comments
We had concerns about the possibility that fraud could occur and asked for a report to allay our fears.	None
Yes, but I wouldn't say it's something we spend a lot of time on.	

Do you understand the committee's role in relation to annual accounts and disclosure statements?

Member comments	Officer comments
The committee receives explanations on adjusted errors in the accounts found by the External Auditors.	At times there is little questioning or challenge to financial reports including the Annual accounts and disclosure statements. This may be an indication that all questions have been answered by the reports themselves but challenge and questioning can be useful and should be encouraged.
Vital and ongoing part of our work.	

Do you understand the committee's role in relation to standards and conduct?

Member comments	Officer comments
Other bodies have Standards Committees. This seems a bit of a hybrid.	None
We have received a copy of the code of conduct.	
Although we have few if any complaints the setting of and education on an ethical code is essential.	

Do you feel the Committee's Focus is correct?

Member comments	Officer comments
In conjunction with officers and auditors we set our own agenda.	I feel that the focus of the Committee is generally kept on track by the Forward Plan and the reports scheduled, but the interest and the discussion and questioning can sometimes stray away from the actual terms of reference into areas of Policy which are not within this committee's remit.
Little work done in standards of behaviour to NECA members.	In my view there are some occasions when the Committee's attention is diverted onto issues that would appear to sit outside of its remit i.e. things that are not specifically to do with internal control, risk, audit or the accounts.

Do you feel the Committee operates effectively?

Member comments	Officer comments
Yes, but the biggest struggle may lie ahead.	Generally I feel the Committee operates effectively. However, as stated above, attendance can sometimes be an issue leading to repeated topics of discussion at multiple meetings when the issue could have been quickly resolved had all members been present. There have been occasions when the committee has been inquorate, which is unhelpful.
Not sure it has effectively developed its role yet.	

Do you feel the Committee's Engagement with management and Members is effective?

Member comments	Officer comments
Not sure what question means. Which members? Do you mean members of the committee or elected members across the area of responsibility?	Engagement with management is good, taking place through pre-meetings before the agendas are put together as well as more ad-hoc contact between meetings.
Good with senior officers, better attendance and/or feedback from CEO would be good.	However only the same officers attend the committee and there has been limited opportunity so far to invite officers delivering NECA's functions.

Do you feel the Committee's Leadership is effective?

Member comments	Officer comments
None	I agree that the Committee's Leadership is effective. However, at times it can seem to stray into areas outside its remit and I feel there could be a closer focus on the actual terms of reference of the Committee in terms of internal control/audit responsibilities.

Governance Committee

Date: 4 July 2017

Subject: 2016/17 Outturn and Key Financial Statements

Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to provide the Governance Committee with a summary of the North East Combined Authority's financial results for 2016/17, present the draft accounting statements and provide an overview of significant financial matters which occurred during the year. An update report is also being prepared for the NECA Leadership Board on 18 July, which could take into account any comments of this Committee.

Recommendations

The Governance Committee is recommended to receive the report for consideration and comment.

Governance Committee

1. Background Information

- 1.1 This outturn report provides the Governance Committee with a summary of the Authority's financial results for 2016/17, explaining the key accounting statements and presents an overview of significant financial matters which occurred during the year.
- 1.2 This is the third set of accounts to be produced for the North East Combined Authority, which was established on 15 April 2014 by the Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order which came into effect on that date. On the same date, the former Tyne and Wear Integrated Transport Authority was dissolved and its assets and liabilities transferred to the new Authority. The North East Combined Authority accounts include a consolidation of the financial results of the North East Local Enterprise Partnership (NELEP), for which it acts as Accountable Body.

2. Principal Financial Results for the Year

2.1 Financial Summary for 2016/17

- 2.1.1 Revenue expenditure covers the cost of the Authority's day to day operations and contributions to and from reserves. A summary of NECA expenditure against budget is set out in the table overleaf. Expenditure totalling £119.328m was managed within the approved revenue budget and income, with an underspend of around £0.570m at the year end which means the requirement to fund activity from reserves is less than originally budgeted for.
- 2.1.2 Capital expenditure of £116.8m reflects investment in infrastructure; economic development and skills programmes. This is funded from a range of Government grants (e.g. for transport projects, Metro asset renewal works, and Local Growth Fund); and internal reserves and funds including the North East Investment Fund. While this is in line with the revised estimate for the year, a significant amount of Local Growth Fund grant received in 2016/17 (£17.6m) is being carried over to be spent in 2017/18. This grant received in advance has temporarily increased the assets and reserves of NECA at 31 March 2017. These are expected to fall in 2017/18 when the grant is used.

2.2 NECA outturn 2016/17

2.2.1 Transport – Levy Funded Budget

The table below summarises the net Transport Revenue Budget (i.e. the net cost to the North East Combined Authority after external income and direct government grants are taken into account) for 2016/17.

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Transport Levy Budget

	2016/17 Revised	2016/17 Outturn	2016/17 Variance
	£000	£000	£000
Transport Levy	(86,894)	(86,894)	-
Grant to Durham	15,414	15,414	-
Grant to Northumberland	6,293	6,293	-
Grant to Nexus	62,500	62,500	-
NECA Transport Retained budget	2,961	2,775	(186)
Contribution (to)/from NECA Tyne and Wear Transport Reserve	274	88	(186)

The net budget was revised during the year to provide for additional costs relating to Devolution to be funded through a combination of drawing down the Tyne and Wear Transport reserve and contributions resulting from projected Transport Budget underspends in Durham and Northumberland. The outturn position was a drawdown of the Tyne and Wear Transport reserve of £88k, some £186k less than was budgeted for.

2.2.2 NECA Corporate Budget

The core NECA corporate budget was set at £450k for 2016/17, with an additional £474k agreed for Devolution activity. Expenditure to the year-end was slightly higher on the core budget due to recruitment costs and some external legal fees, as well as a match funding contribution required to support the North East Technical Assistance programme, which had been assumed to be funded from reserves and was not specifically included as expenditure in the budget.

However, income was also higher than forecast, partly due to a higher level of external investments being placed during the year. A proposal to release some North East Smart Ticketing Initiative (NESTI) balances held on behalf of the NECA constituent authorities was agreed in January 2017, and this had the effect of reducing the required contribution from the NECA Transport budget and that drawdown of £87k from the NECA corporate reserve was no longer required and reserves were restored by a contribution of £47k.

	2016/17 Revised	2016/17 Outturn	2016/17 Variance
Expenditure	£000	£000	£000
Staffing and Support	430	399	(31)
Supplies and Services	20	60	40
Devolution Activity	474	475	1
Match funding contribution to NE Technical Assistance	-	16	16
Total Expenditure	924	950	26

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Income			
Council Contributions	(300)	(300)	-
Interest on Investments	(150)	(222)	(72)
Release of NESTI funds for devolution	-	(194)	(194)
Contribution from Transport budget for devolution	(387)	(281)	106
Total Income	(837)	(997)	(160)
Contribution (to)/from NECA Corporate Reserve	87	(47)	(134)

2.2.3 Inward Investment

Expenditure at the year end was lower than forecast at the revised budget stage, mainly due to some key pieces of work now falling in the 2017/18 financial year. The budget was originally balanced with £123k use of brought forward reserves in relation to Inward Investment activity, so the underspend has meant a lower than forecast use of reserves.

	2016/17 Revised	2016/17 Outturn	2016/17 Variance
Expenditure	£000	£000	£000
Staffing and Support	157	162	5
Travel and Subsistence	7	4	(3)
Supplies and Services	275	171	(104)
Total Expenditure	439	337	(102)
Income			
Council Contributions	(140)	(140)	-
NELEP Contributions	(140)	(140)	-
NELEP One-Off	(20)	-	20
NELEP EZ Marketing	(6)	(6)	-
Private Sector contributions	(10)	(15)	(5)
Total Income	(316)	(301)	15
Contribution (to)/from NECA Inward Investment Reserve	123	36	(87)

2.2.4 Tyne Tunnels

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

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Major variances against budget were on the Tolls Income and Contract Payments budgets. During the year, traffic levels at the Tyne Tunnels reduced significantly, which coincided with ongoing works being carried out by the Highways Agency at the Coast Road and A19 Junction, and the completion of works on the A1, which had previously given a temporary boost to Tunnel traffic. For NECA, reduced tolls income is offset by lower contract payments to the tunnels operator, TT2 Ltd, since their payments are determined by actual traffic levels.

The outturn at the year-end shows an improved position from the revised budget that was agreed in January. The final outturn position was a small surplus of £0.050m to be added to the Tyne Tunnels reserve, an improvement from the previously budgeted £0.160m deficit. This improvement was primarily due to savings in financing charges as set out in earlier reports. After contributions to the capital programme and other deductions from the reserve, the remaining level at 31 March 2017 is £25.993m.

The table below shows details of expenditure at the year end against the 2016/17 budget.

	2016/17 Revised Budget	2016/17 Outturn	Variance
	£000	£000	£000
Tolls Income	(28,775)	(27,795)	980
Contract Payments	22,049	21,201	(848)
Employee Costs	37	35	(2)
Pensions	52	51	(1)
Support Services	90	74	(16)
Supplies and Services	35	47	12
Community Fund	10	0	(10)
Financing Charges	7,002	6,774	(228)
Interest/Other Income	(100)	(196)	(96)
Repayment from Tyne and Wear Transport Reserves	(240)	(240)	-
Total contribution (to)/from Tyne Tunnels reserves	160	(50)	(210)

2.3 North East LEP Outturn 2016/17

2.3.1 Decisions regarding the North East LEP budget are taken by the LEP Board. As Accountable Body, all transactions relating to these budgets are shown in the NECA accounts and subject to external audit. NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP) and, as such, these

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accounts include details of its income and expenditure during 2016/17, fully consolidated with the figures for NECA itself. The NELEP brings together business leaders, universities and members of the NECA Leadership Board. It is the fourth largest LEP in the country and covers the seven local authority areas that also make up NECA. It is responsible for promoting and developing economic growth in the area and works together with NECA to ensure there is co-ordination across a range of activities. One of its major areas of activity is the North East Investment Fund (NEIF), a capital loans fund supporting projects that specifically encourage local economic growth and create jobs in the area.

2.3.2 The table below sets out activity on the **North East Investment Fund** during 2016/17. Expenditure amounted to £5.165m, with loan repayments of £0.89m.

	Grants Paid	Loans Advanced	Total Payments 2016/17	Interest Repayments 2016/17	Principal Repayments 2016/17	Total Repayments 2016/17
	£000	£000	£000	£000	£000	£000
Growing Places Fund	1,306	734	2,040	(59)	(271)	(330)
Regional Growth Fund	-	125	125	(347)	(213)	(560)
Contribution to North East Property Fund	3,000	-	3,000	-	-	-
Total	4,306	859	5,165	(406)	(484)	(890)

2.3.3 The LEP core budget covers LEP operational activity and also management of the Local Growth Fund (LGF) programme. The table below provides a summary of actual spend against the revised budget for the year. Total revenue expenditure amounted to £2.999m, which was £0.053m lower than the revised budget for the year. Income was £3.181m, resulted in a net surplus of £0.182m carried over into 2017/18. This was £156k higher than expected in the revised budget for the year, due mainly to slippage of some transport programme management costs into 2017/18.

2.3.4 The main underspend in the year was on the recharge from the regional transport team for LGF transport project support, which was £127k below the budget set at the beginning of the year. This underspend was primarily due to delays in procuring two studies, which commenced in March and will be completed in the current year, and also reduced independent scheme assessment work for LGF transport schemes in the year. An underspend on the Inward Investment Budget means that the one off earmarked contribution of £0.020m carried over from 2015/16 will no longer be required. Income received, was in line with the revised budget for the majority of the funding streams.

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Summary of LEP Core Budget Outturn for 2016/17

	2016/17 Original Budget	2016/17 Revised Budget	2016/17 Actual Spend	2016/17 Variance
	£000	£000	£000	£000
Expenditure				
Employees	1,550	1,234	1,285	51
Premises	95	95	95	-
Communications	247	251	216	(35)
Transport LGF Monitoring and Evaluation	400	385	258	(127)
Gatsby and Growth Hub Operational Costs	106	377	389	12
Other Operational Costs	615	570	616	46
Inward Investment Contribution	160	140	140	-
Gross Expenditure	3,173	3,052	2,999	(53)
Income				
LEP Core Grant	(250)	(250)	(250)	-
Local Authority Match Contributions	(250)	(250)	(250)	-
LEP Strategy Grant	-	(250)	(250)	-
Local Growth Fund (2.5% Top-Slice)	(1,985)	(1,250)	(1,192)	58
NEIF/EZ Business Rate Receipts	(50)	(100)	(100)	-
Gatsby and Growth Hub Grants	(168)	(606)	(646)	(40)
Other Grants / Enterprise Advisor	(175)	(31)	(69)	(38)
NECA contribution to Head of Paid Service	-	(36)	(36)	-
Interest on Balances	(295)	(305)	(349)	(44)
Other Income	-	-	(39)	(39)
Gross Income	(3,173)	(3,078)	(3,181)	(103)
Net (Surplus)/Deficit	-	(26)	(182)	(156)

2.4 North East Enterprise Zones

2.4.1 The North East Low Carbon Enterprise Zone is located across four local authority areas: Newcastle upon Tyne, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25 year period. 2016/17 was the fourth year of the zone's life.

2.4.2 Analysis of the business rates generated to date is shown in the table below. Once infrastructure costs have been funded, this money is available to support future NELEP activity; primarily additional Enterprise Zone site development works to future enhance this income stream in the coming years. Income increased in the year, but is still lower than the forecast for 2016/17 reflected in the EZ financial 'Model', which was last updated in 2014. Financing costs are significantly lower than in the Model because no external borrowing has been undertaken to fund infrastructure works so far. The net surplus of £273k is higher than in the Model and this has increased the cumulative surplus to £2.602m. This is higher than the £1.727m set out in the 2014 Model.

Governance Committee

Enterprise Zone Account

2.4.2	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000
Local Authority Area				
Newcastle upon Tyne	(312)	(330)	(262)	(614)
North Tyneside	(14)	(55)	(100)	(165)
Northumberland	(12)	(28)	(96)	(173)
Sunderland	(696)	(653)	(745)	(743)
Gross Expenditure	(1,034)	(1,066)	(1,203)	(1,695)
NEIF Repayment	-	-	542	1,306
Financing Costs	-	-	424	-
EZ Costs	-	9	9	121
Interest	-	(3)	(7)	(5)
Total Surplus	(1,034)	(1,060)	(235)	(273)
Cumulative Surplus	(1,034)	(2,094)	(2,329)	(2,602)

2.4.3 Business Rate Income for 2016/17 amounted to £1.695m and Expenditure, including accelerated repayments back to the NEIF, amounted to £1.422m. The surplus for the year was £0.273m, resulting in a cumulative surplus of £2.602m being held.

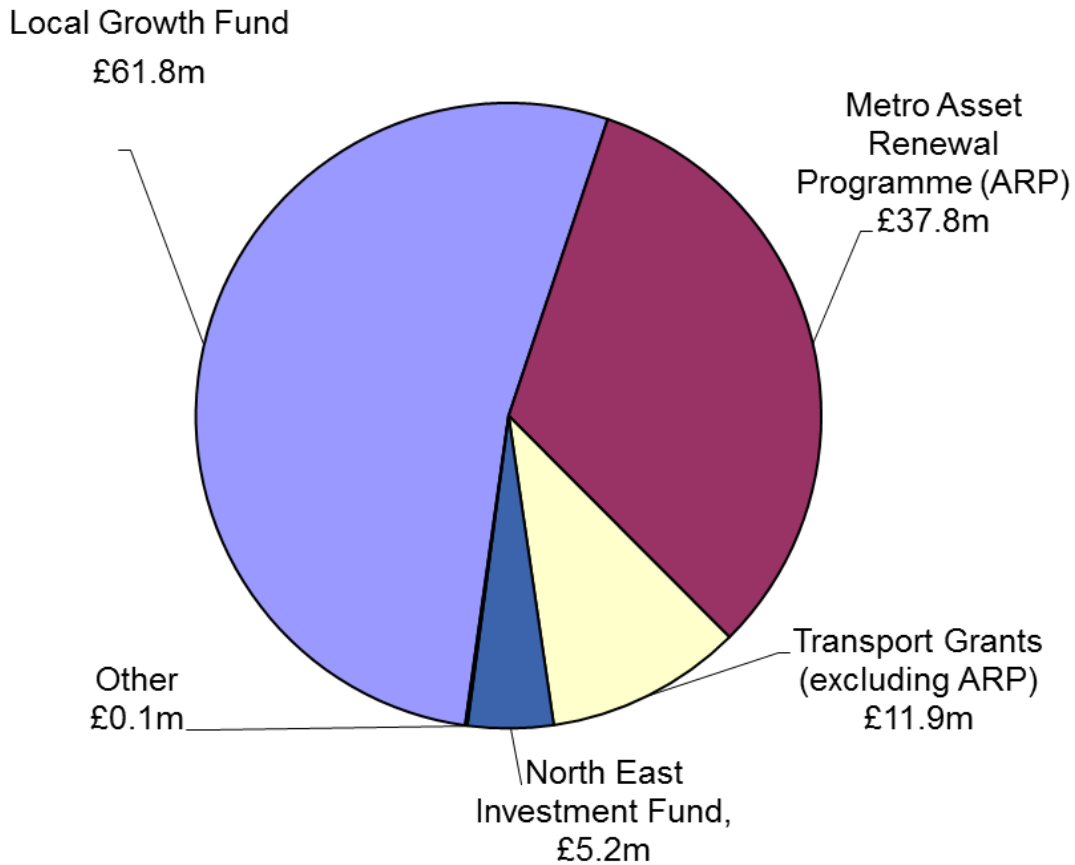
2.5 Capital Programme

2.5.1 Capital investment during the year totalled £116.8m, which is lower than the 2015/16 figure of £127m, mainly due to lower activity in the North East Investment Fund. This consisted of capital expenditure on the Authority's own assets, capital expenditure via capital grants to third parties and long-term capital loans to third parties. An analysis of capital investment by programme and by thematic area are shown in the following table and charts.

2.5.2 Capital Expenditure by Programme

	2015/16	2016/17
	£000	£000
Local Growth Fund Programme	51,472	61,794
Metro Asset Renewal Plan	39,747	37,817
Transport Grants	11,070	11,877
North East Investment Fund	22,820	5,165
Other	2,111	129
Total	127,220	116,782

Governance Committee



2.5.3 Capital Expenditure by Thematic Area

The largest area of capital expenditure is in relation to Transport and Digital Connectivity, reflecting the NECA’s responsibilities as Transport Authority, which it inherited from the former Tyne and Wear Integrated Transport Authority. Activity on Economic Assets and Infrastructure and Economic Development continues to grow, building on strong performance in 2015/16, and includes the North East Investment Fund. Skills and Innovation were new areas of activity for NECA in 2015/16 and have continued to be supported in 2016/17. A selection of the significant by value capital projects / programmes under each thematic area are set out below (figures in brackets represent capital investment in the year funded by NECA sources).

Economic Assets and Infrastructure

- North East Investment Fund – Loans and grants including the contribution to the North East Property Fund (£5.1m)
- LGF – Infrastructure for Forrest Park (£2.1m) (Durham County Council)
- LGF – Sunderland Central Business District (£1.5m) (Sunderland City Council)

Governance Committee

- LGF – Rural Growth Network (£0.757) (Northumberland County Council)

Innovation

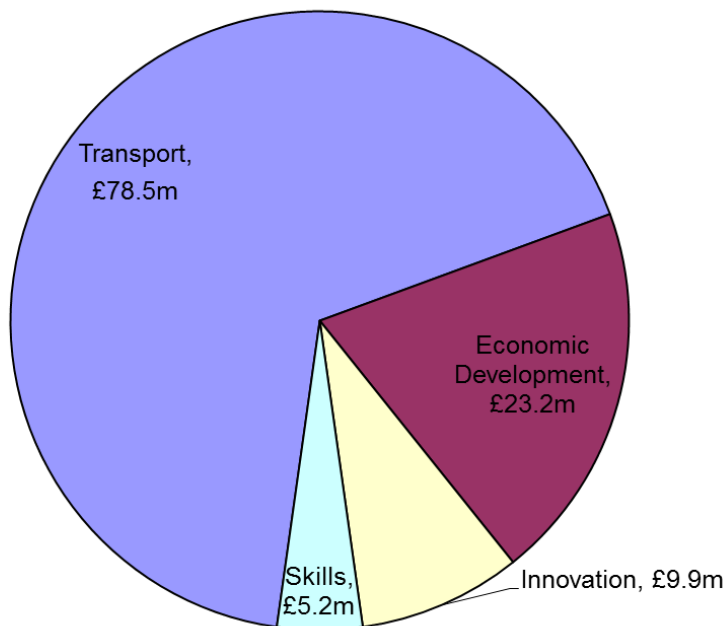
- LGF – Centre for Innovation in Formulation (£1.0m)
- LGF – Newcastle Laboratory and Life Science Incubation Hub (£1.0m) (Newcastle City Council)
- LGF – Northern Centre for Emerging Technologies (£0.9m) (Gateshead Council)
- LGF – NetPark Infrastructure Phase 3 (£0.8m)

Transport and Digital Connectivity

- Metro Asset Renewal Programme (£37.8m) (Tyne & Wear – Nexus)
- LGF – A19 Employment Corridor Improvements (£2.0m) (North Tyneside Council)
- LGF – South Shields Transport Hub (£1.8m) (South Tyneside Council)
- Tyne Tunnels Capital Programme (£1.9m)

Skills

- LGF – Rural Skills Development East Durham College (£2.5m)
- LGF – Beacon of Light World of Work (£1.8m)
- LGF – Northumberland College STEM centre (£0.9m)



Governance Committee

2.5.5 A summary of how this capital investment was financed is shown in the following table:

	2016/17	2016/17
	£000	%
Local Growth Fund Grant	(61,794)	52.9%
Local Transport Plan Grant	(14,460)	12.4%
Metro Capital Grant	(34,252)	29.3%
North East Investment Fund	(2,864)	2.5%
Growing Places Fund Capital Grant	(2,358)	2.0%
Revenue/Reserves	(1,054)	0.9%
Total Funding	(116,782)	100.0%

2.6 Treasury Management

2.6.1 The Balance Sheet (Appendix 3) shows external borrowing of £169.998m at the end of the year, which is split between short term borrowing (£2.231m) and long term borrowing (£167.667m). This compares to £171.690 for 2015/16. The decrease is due to the regular principal repayments made on Equal Instalment of Principal (EIP) loans. The average rate of interest on external borrowing for the year was 4.3%, which is comparable with the previous year.

2.6.2 The Balance Sheet also shows short term external investments of £104m at the end of the year compared to £89m at the end of the previous year, consisting of £66m NECA's own investments and £38m of investments held on behalf of Nexus. The increase in NECA investments in 2016/17 compared to the previous year is primarily due to receipt of a greater level of LGF grant income in advance of payments being made to projects and the need to achieve better investment returns leading to deposits being placed for longer time periods where it is considered safe to do so.

2.7 Pensions

2.7.1 The Authority is an employer in the Tyne and Wear Pension Fund (the pension fund), which is part of the Local Government Pension Scheme (LGPS), which provides defined benefits based on members' final pensionable salary and years of service. In accordance with IAS19, the Authority is required to value all pension liabilities that have accumulated at the end of the year consisting of:

- Pension benefits that are being paid out to former employees who have retired.
- Pension benefits earned to date by current employees but not yet paid out.

IAS19 also requires the Authority to value all investments held by the pension fund at market value at the end of the year. When assets and liabilities at year-end are compared this results in a surplus or deficit.

Governance Committee

- 2.7.2 NECA has two types of pension liabilities – described as funded and unfunded. Funded pension liabilities are within the LGPS and are backed by assets attributable to the Authority. The funded element of the scheme is in a surplus position amounting to £7.46m, reflecting the decision of the former Tyne and Wear ITA to make a lump sum payment to clear its pension deficit in December 2013, and the high employers' contribution rate on employee costs paid in recent years. This approach has given significant increases in the value of assets in the fund, well above the levels of return that could have been achieved by the Authority itself, and also significant savings in the revenue budget.
- 2.7.3 For accounting purposes this surplus is limited to nil on the NECA balance sheet because, under Pension Fund arrangements, the Authority is not able to “withdraw” the surplus from the Fund. It gets a benefit from the surplus in the form of savings on employers' pension contributions for current employees, which has enabled significant savings on the revenue budget particularly in relation to the LEP.
- 2.7.4 Unfunded or discretionary benefits e.g. early retirement awards sit outside the Authority's funded part of the scheme and are therefore not backed by assets, but must be paid as incurred on a monthly basis. These costs all relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £51k in 2016/17. At the end of the year there was a pension fund deficit of £0.980m and this is disclosed on the Balance Sheet. This compares with a deficit of £0.890m at the end of the previous year. The main reason for the small increase is due to the assumptions made by the pension fund actuary, particularly a reduction in the discount rate used to revalue liabilities from 3.3% to 2.5%. A decrease in the discount rate increases the current value of the liability outstanding.

2.8 Key Financial Statements

- 2.8.1 The full NECA draft accounts are available to download from the NECA website, and will be presented to the Committee once the audit has been completed, at the meeting in September. The core financial statements and selected notes are included in the appendices to this report.
- 2.8.2 Movement in Reserves Statement (MiRS) (Appendix 1)
This statement shows the movement in the year on the different reserves held by the Authority, analysed into Usable Reserves (i.e. those which can be applied to fund expenditure) and Unusable Reserves (which cannot). The surplus or deficit on the provision of services line shows the economic cost in accounting terms of providing NECA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before

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any discretionary transfers to or from earmarked reserves undertaken by the Authority. In 2016/17 there is a Net Increase of Usable reserves of £12.7m, due to an increase in unapplied capital grants. Unusable reserves have risen by £7.9m due to technical accounting adjustments.

2.8.3 Comprehensive Income and Expenditure Statement (CIES) (Appendix 2)

The Comprehensive Income and Expenditure Statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from the levy and other sources of income which is set out in the MiRS, as described above. The CIES has changed in 2016/17, and the Cost of Services income and Expenditure must be presented across the Authority's own reporting segments, rather than on the prescribed Service Expenditure Reporting Code of Practice objective classification which was the previous requirement. As a result, 2015/16 figures have been restated to the new requirements. This shows an in-year accounting 'surplus' of £20.69m, due mainly to the unapplied Local Growth fund grant received in the year of £17.6m but carried over to be spent in 2017/18.

2.8.4 Balance Sheet (Appendix 3)

The Balance Sheet summarises the Authority's financial position at 31 March each year. The net assets of the Authority (total assets less total liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories, Usable and Unusable as described above. Unusable Reserves include those which hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MiRS line "adjustments between accounting basis and funding basis under regulations". Net assets have risen by £20.691m from £150.878m to £171.569m, which is mainly a temporary increase reflecting the unapplied LGF grant received in the year but carried over to be spent in 2017/18.

2.8.5 Cash Flow Statement (Appendix 4)

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows from operating, investing and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

The level of cash held by the Authority has decreased from £41.739m at 31 March 2016 to £16.212m at 31 March 2017. This is due to an increase in the level of external investments placed, and a lower cash balance owed to Newcastle City Council at the year end.

Governance Committee

2.8.6 Expenditure and Funding Analysis (EFA) (Appendix 5)

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (transport levy, government grants, constituent authority contributions) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making between the Authority's services/thematic areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices.

Net Change for Pension Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and Investment Income and Expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute:

- For Financing and Investment Income and Expenditure – the Other Differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Governance Committee

3. Reasons for the Proposals

- 3.1 It is within the Governance Committee's Terms of Reference that it will 'review key information relating to the NECA's Statement of Accounts'. The outturn financial position and the key financial statements are presented for review at this meeting, and the full Statement of Accounts will be presented at the September meeting of the committee, following the external audit process.

4. Alternative Options Available

- 4.1 The report is provided for information and comment. There are no other decision options.

5. Next Steps and Timetable for Implementation

- 5.1 The draft accounts are subject to audit by the Authority's external auditors, Mazars. This work is expected to be substantially complete by the end of July 2017, and the final audited accounts will be presented to the Governance Committee at its meeting on 12 September prior to approval by the Leadership Board on 19 September.

6. Potential Impact on Objectives

- 6.1 There are no direct impacts on objectives as a result of this report. Sound financial stewardship improves the ability of the Authority to meet all of its objectives.

7. Financial and Other Resources Implications

- 7.1 There are no financial or resource implications arising from this report which is for information. Financial commentary is set out in the body of the report.

8. Legal Implications

- 8.1 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.

9. Key Risks

- 9.1 There are no specific risks arising from the recommendations in this report. The accounts show underspends rather than overspending, which gives an indication that financial risks are being effectively managed. The improvement in reserves with help NECA and the LEP manage risks in future years.

Governance Committee

10. Equality and Diversity

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

11. Other Impact of the Proposals

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

12. Appendices

12.1 Appendix 1 – Movement in Reserves Statement
Appendix 2 – Comprehensive Income and Expenditure Statement
Appendix 3 – Balance Sheet
Appendix 4 – Cash Flow Statement
Appendix 5 – Expenditure and Funding Analysis

13. Background Papers

13.1 North East Combined Authority Statement of Accounts 2016/17 (Draft, subject to audit)

14. Contact Officers

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

15. Sign off

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

Governance Committee

Appendix 1 – Movement in Reserves Statement

	Usable Reserves					Unusable Reserves	Total Authority Reserves
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves		
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2015	(32,702)	(12,984)	(1,050)	(10,688)	(57,425)	(91,284)	(148,709)
Movement in reserves during 2015/16							
Total Comprehensive Income & Expenditure	(2,039)	-	-	-	(2,039)	(130)	(2,169)
Adjustments between accounting basis & funding basis under regulations	4,340	-	(2,553)	(300)	1,487	(1,487)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	2,301	-	(2,553)	(300)	(552)	(1,617)	(2,169)
Transfers (To)/From Earmarked Reserves	(4,606)	1,003	3,603	-	-	-	-
Increase in 2015/16	(2,305)	1,003	1,050	(300)	(552)	(1,617)	(2,169)
Balance at 31 March 2016 carried forward	(35,007)	(11,981)	-	(10,988)	(57,977)	(92,901)	(150,878)
Movement in reserves during 2016/17							
Total Comprehensive Income & Expenditure	(20,811)	-	-	-	(20,811)	120	(20,691)
Adjustments between accounting basis & funding basis under regulations	23,246	-	(439)	(14,738)	8,069	(8,069)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	2,435	-	(439)	(14,738)	(12,742)	(7,949)	(20,691)
Transfers (To)/From Earmarked Reserves	(2,589)	2,317	271	-	-	-	-
(Increase)/Decrease in 2016/17	(154)	2,317	(168)	(14,738)	(12,742)	(7,949)	(20,691)
Balance at 31 March 2017 carried forward	(35,161)	(9,664)	(168)	(25,726)	(70,719)	(100,850)	(171,569)

Governance Committee

Appendix 2 – Comprehensive Income and Expenditure Statement

2015/16 (restated*)				2016/17		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
757	(300)	457	Corporate	1,318	(656)	662
149	(140)	9	Inward Investment	344	(169)	175
50,958	(53,910)	(2,952)	Local Growth Fund Programme	59,968	(77,575)	(17,607)
15,449	(16,785)	(1,336)	North East LEP	7,481	(3,177)	4,304
49	(49)	-	Skills	1,148	(1,148)	-
86,691	(5)	86,686	Transport - Levy Budget	84,668	-	84,668
19,927	(20,117)	(190)	Transport - Other	19,320	(18,160)	1,160
26,474	(33,538)	(7,064)	Transport - Tyne Tunnels	25,753	(33,283)	(7,530)
200,454	(124,844)	75,610	Cost of Services	200,000	(134,168)	65,832
3,672	-	3,672	Other Operating Expenditure	-	-	-
12,240	(3,181)	9,059	Financing & Investment Income & Expenditure	7,450	(3,677)	3,773
-	(90,380)	(90,380)	Taxation & Non-Specific Grant Income	-	(90,416)	(90,416)
		(2,039)	(Surplus) on Provision of Services			(20,811)
		(130)	Re-measurements of the defined benefit liability			120
		(130)	Other Comprehensive Income & Expenditure			120
		(2,169)	Total Comprehensive Income & Expenditure (Surplus)			(20,691)

Governance Committee

Appendix 3 – Balance Sheet

31 March 2016 £000		31 March 2017 £000
355,673	Property, Plant & Equipment	353,664
58,172	Long Term Debtors	56,521
413,845	Long Term Assets	410,185
89,000	Short Term Investments	104,000
9,965	Short Term Debtors	10,904
41,739	Cash and Cash Equivalents	16,212
140,704	Current Assets	131,116
(3,356)	Short Term Borrowing	(2,332)
(113,252)	Short Term Creditors	(88,361)
(4,955)	Grants Receipts in Advance	(2,483)
(5,092)	New Tyne Crossing - Deferred Income	(5,093)
(126,655)	Current Liabilities	(98,269)
(106,938)	New Tyne Crossing - Deferred Income	(101,845)
(168,333)	Long Term Borrowing	(167,667)
(855)	Grants Receipts in Advance	(971)
(890)	Pension Liability	(980)
(277,016)	Long Term Liabilities	(271,463)
150,878	Net Assets	171,569
(57,977)	Usable Reserves	(70,719)
(92,901)	Unusable Reserves	(100,850)
(150,878)	Total Reserves	(171,569)

Governance Committee

Appendix 4 – Cash Flow Statement

2015/16 £000		2016/17 £000
2,039	Net Surplus/(Deficit) on the provision of services	20,811
66,842	Adjustments to net surplus or deficit on the provision of services for non cash movements	(26,207)
(81,803)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(74,216)
(12,922)	Net cash flows from Operating Activities	(79,612)
13,432	Investing Activities	55,802
(27,302)	Financing Activities	(1,717)
(26,792)	Net (Decrease)/Increase in cash and cash equivalents	(25,527)
68,531	Cash and cash equivalents at the beginning of the reporting period	41,739
41,739	Cash and cash equivalents at the end of the reporting period	16,212

Governance Committee

Appendix 5 – Expenditure and Funding Analysis

2015/16 (Restated)					2016/17					
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis			Net Expenditure in the CIES		Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis			Net Expenditure in the CIES
	Adjustments for Capital Purposes	Pension Adjustments	Other Differences				Adjustments for Capital Purposes	Pension Adjustments	Other Differences	
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
377	-	80	-	457	Corporate	662	-	-	-	662
9	-	-	-	9	Inward Investment	175	-	(1)	-	175
(1,054)	(1,898)	-	-	(2,952)	Local Growth Fund Programme	1,898	(19,506)	-	-	(17,608)
5,743	(7,019)	(60)	-	(1,336)	North East LEP	2,769	1,544	(9)	-	4,304
-	-	-	-	-	Skills	-	-	-	-	-
91,506	(1,081)	-	-	90,425	Transport - Levy Budget	85,707	(1,038)	-	-	84,668
(2,018)	(1,910)	-	-	(3,929)	Transport - Other	1,549	(389)	-	-	1,159
(4,527)	(2,487)	(50)	-	(7,064)	Transport - Tyne Tunnels	(4,735)	(2,743)	(50)	-	(7,528)
90,036	(14,395)	(30)	-	75,610	Net Cost of Services	88,024	(22,132)	(60)	-	65,832
(91,338)	7,275	30	6,384	(77,649)	Other Income and Expenditure	(85,860)	271	30	(1,084)	(86,643)
(1,302)	(7,120)	-	6,384	(2,039)	Surplus or Deficit	2,164	(21,861)	(30)	(1,084)	(20,811)
(45,686)					Opening General Fund Balances	(46,988)				
(1,302)					Less Surplus on General Fund Balances in Year	2,164				
(46,988)					Closing General Fund Balances at 31 March	(44,824)				

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Governance Committee

Date: 4 July 2017

Subject: External Audit Progress Update

Report of: External Auditor

Not confidential

Executive Summary

The purpose of this report is to present the update from the External Auditor which is attached as Appendix 1.

Recommendations

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

Governance Committee

1. Background Information

- 1.1 The report of the External Auditor attached at Appendix 1 sets out an update for the Governance Committee on progress by Mazars in delivering their responsibilities as external auditors, and also information on key emerging national issues and developments which may be of interest to Committee Members.

2 Proposals

- 2.1 The update from the External Auditor is set out in their report at Appendix 1.

3. Reasons for the Proposals

- 3.1 It is within the Governance Committee's Terms of Reference to receive progress reports by External Audit regarding delivery of their plan of work, and this report fulfils that requirement.

4. Next Steps and Timetable for Implementation

- 4.1 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.

5. Potential Impact on Objectives

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

6. Financial and Other Resources Implications

- 6.1 There are no finance or resource implications arising from this report. The audit fee for the year is provided for within the 2016/17 and 2017/18 budgets.

7. Legal Implications

- 7.1 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.

8. Key Risks

- 8.1 There are no risk implications arising from this report, which is for information.

Governance Committee

9. Equality and Diversity

- 9.1 There are no equality and diversity implications arising from this report, which is for information.

10. Crime and Disorder

- 10.1 There are no crime and disorder implications arising from this report, which is for information.

11. Consultation/Engagement

- 11.1 The draft accounts are subject to a period of public inspection during which time members of the public may raise questions or lodge objections with the external auditors, should there be grounds to do so.

12. Other Impact of the Proposals

- 12.1 There are no other impacts arising from this report, which is for information.

13. Appendices

- 13.1 Appendix 1 – Audit Progress Report July 2017

14. Background Papers

- 14.1 None

15. Contact Officers

- 15.1 Cameron Waddell, Partner, cameron.waddell@mazars.co.uk, 0191 383 6314
Jim Dafter, Senior Manager, jim.dafter@mazars.co.uk, 07815 876 042

16. Sign off

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

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Audit Progress Report

North East Combined Authority



July 2017



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National publications and other updates 4

Contact details 7

Audit progress

Introduction

The purpose of this report is to update the Governance Committee of the North East Combined Authority (the Authority) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

On-going work

We have now completed our detailed audit planning, in particular we have:

- carried out our initial planning in respect of 2016/17, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- documented a walkthrough of the key financial systems;
- held on-going liaison meetings with your Internal Auditors to both share common knowledge and ensure no duplication;
- held on-going liaison meetings with senior officers; and
- considered key agendas and papers.

Based on our work to date we have no significant matters arising to report to you and there are no changes to our original assessment of significant risks (Opinion and VfM) as set out in our Audit Strategy Memorandum which was presented to the Audit and Standards Committee on 6 March 2017.

Work has recently commenced on the Authority's draft 2016/17 Statement of Accounts.

We have been informed by EY, the auditors of the Tyne and Wear Pension Fund, that they are proposing to provide the required assurance by 31 July 2017.

We plan to include our Audit Completion Report on the agenda of the Governance Committee on 12 September 2017 before we present to the Leadership Board for approval on 19 September 2017.

Issues arising

At this stage of our audit work, we have no significant deficiencies in internal control to report to you and there are no changes to our risk assessment previously reported to you in our Audit Strategy Memorandum.

National publications and other updates

National publications and other updates	
1.	Financial sustainability of schools, National Audit Office, December 2016
2.	Mandatory Gender Pay Gap Reporting – Public Sector, Government Equalities Officer, January 2017
3.	Capital funding for schools, National Audit Office, February 2017
4.	Planning for 100% local retention of business rates, National Audit Office, March 2017
5.	2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017
6.	Integrating health and social care, Public Accounts Committee, April 2017

1. Financial sustainability of schools, National Audit Office, December 2016

The Department of Education's approach to managing the risks to schools' financial sustainability cannot be judged to be effective or providing value for money until more progress is made, according to the National Audit Office. The Department estimates that mainstream schools will have to find savings of £3.0 billion (8.0%) by 2019-20 to counteract cumulative cost pressures, such as pay rises and higher employer contributions to national insurance and the teachers' pension scheme. It expects that schools will need to make efficiency savings through better procurement (estimated savings of £1.3 billion) and by using their staff more efficiently (the balance of £1.7 billion).

However, the Department has not clearly communicated to schools the scale and pace of the savings required. While it can show, on the basis of benchmarking analysis, that schools should be able to achieve such savings without affecting educational outcomes, it does not know whether schools will achieve them in practice.

<https://www.nao.org.uk/report/financial-sustainability-in-schools/>

2. Mandatory Gender Pay Gap Reporting – Public Sector , Government Equalities Officer, January 2017

The Government have published the response to their consultation to introduce mandatory gender pay gap reporting to the public sector. The proposals would require public bodies to publish the difference between the average pay of male and female employees. Subject to parliamentary approval, the regulations should be in force before 31 March 2017.

The government's response can be found on the link below:

<https://www.gov.uk/government/consultations/closing-the-public-sector-pay-gap>

And the draft regulations:

<http://www.legislation.gov.uk/ukdsi/2017/9780111153277/contents>

3. Capital funding for schools, National Audit Office, February 2017

The Department for Education, working with local authorities and schools, has created a large number of new school places and is making progress in improving schools in the worst condition, but significant challenges remain, according to the National Audit Office.

Between 2010 and 2015, the Department and local authorities created 599,000 new school places at a cost of £7.5 billion, mostly in good or outstanding schools, enabling them to meet the growing demand for places. The Department has also improved how it estimates the need for school places, collecting more localised forecasts of pupil numbers, and allocates money more closely according to need.

According to the NAO, the expected deterioration in the condition of the school estate is a significant risk to long-term value for money. Responsibility for maintaining the condition of school buildings is devolved to schools, multi-academy trusts and local authorities. The Department's property data survey estimates it would cost £6.7 billion to return all school buildings to satisfactory or better condition, and a further £7.1 billion to bring parts of school buildings from satisfactory to good condition. The most common major defects are problems with electrics and external walls.

While the Department cannot yet assess reliably how the condition of the school estate is changing over time, it estimates that the cost of dealing with major defects in the estate will double between 2015-16 and 2020-21, even with current levels of funding, as many buildings near the end of their useful lives. Much of the school estate is over 40 years old, with 60% built before 1976.

<https://www.nao.org.uk/report/capital-funding-for-schools/>

4. Planning for 100% local retention of business rates, National Audit Office, March 2017

The Department for Communities and Local Government has made progress in designing the scheme for 100% retention of business rates by local authorities, but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives, according to the National Audit Office.

By allowing local authorities to retain 100% of business rates, the Department hopes that this will incentivise them to grow their tax bases by adopting pro-development planning practices which in turn will support economic growth. But tax base growth does not necessarily mean economic growth: new developments might lead to the relocation of existing economic activities rather than the creation of new ones, for instance. The Department needs to understand the link between business rates and economic growth to ensure that the scheme is configured to maximise economic growth rather than just growth in the tax base.

<https://www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates/>

5. 2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017

PSAA has published the work programme and scales of fees for 2017/18 audits of principal local government and police bodies. There are no changes to the overall work programme for 2017/18. Scale fees for 2017/18 have therefore been set at the same level as the fees applicable for 2016/17. This is the final year for which PSSA will set fees under the transitional arrangements made by DCLG.

<http://www.psa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees/>

6. Integrating health and social care, Public Accounts Committee, April 2017

Further to a National Audit Report on the Better Care Fund and various PAC hearings, the Public Accounts Committee published a report on integrating health and social care.

The conclusions and recommendations are summarised below.

- The Departments do not know the most effective balance of limited funding across health and social care. The Department and NHS England should assess the impact that financial pressure in social care is having on the NHS, so that it can better understand the nature of the problem and how it can be managed.
- The Departments and NHS England should reassess whether the Better Care Fund in its current form is still necessary and should identify what has worked well so this can be brought into sustainability and transformation planning.
- NHS England and the Local Government Association should encourage and support the full involvement of local government in the sustainability and transformation planning process. Working with their local authority partners, local health bodies should improve the involvement of local populations in the planning process.
- The Departments, NHS England and the Local Government Association must take responsibility for the performance of their programmes, including the Better Care Fund while it continues. We expect greater accountability and more realistic objectives, which the Departments and partners will stand by.

<https://www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/959/95902.htm>

Contact details

Please let us know if you would like further information on any items in this report.

Cameron Waddell

Partner

Email: cameron.waddell@mazars.co.uk

Phone: 0191 383 6314

Jim Dafter

Senior Manager

Email: jim.dafter@mazars.co.uk

Phone: 07815 876 042

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

www.mazars.co.uk

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Governance Committee

Data: 4 July 2017

Subject: Draft Annual Governance Statement 2016/17

Report of: Audit, Risk and Insurance Service Manager

Executive Summary

The purpose of this report is to bring the draft 2016/17 Annual Governance Statement to Members to consider its inclusion in the accounts. The Annual Governance Statement is at Appendix 1.

Recommendation

- I. It is recommended that the Committee agree the draft 2016/17 Annual Governance Statement narrative and consider the evidence provided to support its production
- II. Acknowledge that the Statement will be subject to further review in September 2017, following the completion of the external audit of the accounts and before it is signed by the Head of Paid Service and Chair of the Combined Authority.

Governance Committee

1 Background Information

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

- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
- Identify significant weaknesses and the actions that have taken place (or will take place) to address them;
- Report these to the public in the Annual Governance Statement which is part of the Accounts.

2 Evidence

2.1 The assurance framework for the Combined Authority is set out below. This table shows the elements making up the framework. This process complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice and will be subject to review by the Authority's external auditors at the time of their audit of the 2016/17 final accounts.

Element of Assurance
Governance Arrangements
Statutory Officers
Members
Internal Audit Activity
Risk Management
Performance Management
External auditor and other external inspectorates
Key Partnerships

2.2 **Governance Arrangements** - The Combined Authority has in place a Constitution which was reviewed and approved by the Leadership Board at their annual meeting on 20 June 2017. The Constitution defines the roles and responsibilities of those charged with Governance within the Authority. There are also a number of other key documents including the NECA Order and Operating Agreement in place. This evidence and the information below provides assurance that governance arrangements have been defined.

2.3 **Statutory Officers** – The Monitoring Officer and Chief Finance Officer have provided signed assurance statements setting out the mechanisms they have in place and concluding that they can provide assurance that effective controls are in place. The Monitoring Officer as the Senior Information Risk Owner (SIRO), has also certified an appropriate assurance statement. The signed statements can be found at Appendix 2.

2.4 **Members** – the Governance Committee have reviewed evidence throughout 2016/17 relevant to the control and governance arrangements in place for the

Governance Committee

Combined Authority. This has included internal and external audit activity, financial records relevant to budgets and the accounts, risk management and other assurance information. Members can draw on this when giving a view of the effectiveness of control and governance arrangements in place.

- 2.5 **Internal Audit Activity** – This is considered in more detail in the internal audit annual report elsewhere on this agenda and has been presented to the Governance Committee throughout the year. The opinion based on the internal audit work for 2016/17 is that the control environment was effective and provided a substantial level of assurance.
- 2.6 **Risk Management** – A risk management policy and strategy is in place and a strategic risk register has been developed, which monitors the most significant risks and opportunities to the Combined Authority. The risk register is elsewhere on this agenda and provides evidence that there is a sound process in place for managing strategic risks and opportunities within the Combined Authority.
- 2.7 **Performance Management** – Performance information from each theme is reported to the Leadership Board on a regular basis and has not identified any issues which would suggest a significant weakness in the control environment.
- 2.8 **External auditor** – The external auditor Mazars issued an unqualified opinion on the NECA 2015/16 accounts and an unqualified value for money opinion. An audit of the Authority's 2016/17 accounts will be undertaken and further assurance will be given at that point before the accounts are finalised.
- 2.9 **Key Partnerships** – There is a register of significant partnerships which has been used to identify those partnerships where the Authority needs assurance on their control environment to support its Annual Governance Statement. Based on evidence from the returned assurance statements, the partnerships have stated that they have an effective control environment in place with no weakness identified. A list of the significant partnerships are noted at Appendix 3.
- 2.10 Nexus is not included in the significant partnership register due to its status as an officer of the Combined Authority, however a separate assurance statement has been signed by their Director of Finance, which states Nexus have an effective control environment in place. A copy of the Statement can be found in Appendix 4.
- 3. Outcomes of the Review of Assurances**
- 3.1 The review highlighted no significant weakness in the internal control environment during 2016/17 or areas which require improvement.

Governance Committee

4. Proposals

- 4.1 The Committee are asked to review the draft 2016/17 Annual Governance Statement and the evidence provided to support its production. The Committee are also asked to acknowledge that the Statement will be subject to a further review in September 2017 following approval of the financial accounts and consideration by the Leadership Board.

5. Reason for the Proposals

- 5.1 Governance Committee's role is to provide an ongoing review, challenge and assurance role in relation to governance and internal control issues. The Committee therefore reviews the Annual Governance Statement process and supporting evidence before the Statement is approved and certified.

6. Next Steps and Timetable for Implementation

- 6.1 The final Annual Governance Statement will be considered once more by the Governance Committee in September 2017, before it is included in the 2016/17 accounts. This is to consider any significant weaknesses should they arise before the 2016/17 accounts are audited and finalised.
- 6.2 The final Annual Governance Statement will then be signed by the Leader of the Combined Authority and the Head of Paid Service, before being published with the final accounts.

7. Potential Impact on Objectives

- 7.1 No direct impact on objectives.

8. Financial and Other Resources Implications

- 8.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council's Internal Audit Service under the SLA for 2016/17.

9. Legal Implications

- 9.1 No direct legal implications arising specially from this report.

10. Key Risks

- 10.1 Risk management will be considered as part of the production of the Annual Governance Statement. There are no specific risk implications directly arising from this report.

11. Equalities and Diversity

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

12. Crime and Disorder

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

Governance Committee

13. Consultation/Engagement

- 13.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer have consulted on the draft AGS

14. Other Impact of the Proposals

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

15. Appendices

- 15.1 Appendix 1 - Annual Governance Statement
Appendix 2 – Assurance Statements signed by Monitoring Officer/Senior Information Risk Owner/Chief Finance Officer
Appendix 3 – Partnership Assurance Statements
Appendix 4 – Nexus Assurance Statement

16. Background Papers

- 16.1 The Annual Governance Framework and completed Partnership Assurance Statements are available.

17. Contact Officers

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

18. Sign off

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

Draft Annual Governance Statement 2016/17

Section 1	Scope of Responsibility
Section 2	The Purpose of the Governance Framework
Section 3	The Governance Framework
Section 4	Annual Review of Effectiveness of Governance Framework
Section 5	Significant Weaknesses in Governance and Internal Control
Section 6	Conclusion

Section 1: Scope Of Responsibility

The seven local authorities of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland, as the already established North East Leadership Board came together in April 2014 to establish a Combined Authority for the area. Building on the track record of joint working, the Authority is an enabling body, which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth. It brings together the political leadership of the seven local authorities in the region to help co-ordinate strategic transport and economic planning for growth in the long term in a global context.

The Combined Authority works closely with the Local Enterprise Partnership, for which it is the accountable body, to deliver the objectives of the Combined Authority and the Strategic Economic Plan, which sets out our ambitious vision to strengthen the area's economy and provide more opportunities for businesses and communities.

We (the North East Combined Authority) are responsible for ensuring that our business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which we exercise our functions, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority's Leadership Board and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) for:

- (i) the governance of our affairs and
- (ii) facilitating the effective exercise of our functions, including arrangements for the management of risk

In relation to (ii) the Authority has put in place a system of internal control designed to

manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to:

- a) identify and prioritise the risks to the achievement of our, aims and objectives; and
- b) evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Combined Authority has developed a Risk Management Strategy and strategic risk register, which is reported to regular meetings of the Authority's Governance Committee. This information can be found under the Governance Committee on the Authority's website at: <http://www.northeastca.gov.uk/committee-meetings/governance-committee-background-information-papers>

Section 2: Purpose Of The Governance Framework

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, creating the conditions of economic growth and investment. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2017 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of Regulation 3 of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement, therefore in doing so complies with the principles of corporate governance set out in the CIPFA/SOLACE Good Governance Framework 2012.

Section 3: The Governance Framework

Our Governance Framework is developing, following the formation of the North East Combined Authority in April 2014 and is maturing with the organisation. As such systems, processes and controls are developing and adapting to meet the needs of the Combined Authority going forward, to ensure we are in the best position to achieve our objectives.

The core principals and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to achieve our objectives:

Focusing on our objectives and outcomes

1.1 We ensure that we are clear on delivering the objectives of the Combined Authority and intended outcomes of our Strategic Economic Plan, to create the best possible conditions for growth in jobs, investment and living standards, enabling residents to develop high-level skills so they can benefit long into the future.

1.2 We ensure we assess and review our vision and the implications for our governance arrangements through the budget and performance management framework.

Members and officers have clearly defined roles and responsibilities

2.1 We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Leadership Board, Members and officers have been agreed by the Combined Authority.

We promote high standards of conduct and behaviour

3.1 We develop, communicate and embed codes of conduct set out in the Constitution, defining standards of behaviour for Members and officers working on behalf of the Authority. Governance Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board. The Constitution is available on the NECA website. [NECA Constitution](#)

Transparent decision making subject to scrutiny and risk management

4.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals – these clearly define how decisions are taken and the processes and controls required to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The interim Monitoring Officer (Head of Law and Governance, North Tyneside Council) advises on compliance with our policy framework, ensuring that decision making is lawful and fair. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the interim Chief Finance Officer.

4.2 We ensure that our Governance Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2013.

4.3 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public. Administration of the Authority's policies on anti-fraud and corruption is undertaken by Internal Audit.

Developing the capacity of members and officers to be effective

5.1 We identify and aim to address the development needs of members and officers in relation to their strategic roles, and support these with appropriate training.

Engaging with local people and stakeholders

6.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

6.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.

Section 4: Annual Review Of Effectiveness Of Governance Framework

We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by officers and Members of Governance Committee who provide independence and challenge. The outcomes of the review were circulated informally to Leadership Board and will be considered further by the Governance Committee.

The review is informed by

- (a) The views of our internal auditors, reported to Governance Committee through regular progress reports, and the Annual Internal Audit Opinion.
- (b) An annual review of the effectiveness of internal audit (as required by Public Sector Internal Audit Standards).
- (c) The views of our external auditors, reported to Governance Committee through regular progress reports, and the annual Internal Audit Opinion, adhering to the principles in CIFPA Statement 2010 on the role of the Head of Internal Audit.
- (d) The activities and operations of the themes (economic development and regeneration, employability & inclusion, and transport & digital connectivity) and significant partnerships through written assurance statements.
- (e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements.
- (f) The views of Members through the ongoing activities of Governance Committee (Governance Committee includes the activity of an Audit Committee and a Standards Committee, providing independent assurance on the effectiveness of the governance and internal control environment). And an Overview and Scrutiny Committee who review and scrutinise Leadership Board decisions as well as other Transport committee's decisions.
- (g) The Risk Management process, particularly the Strategic Risk Register.
- (h) Performance information which is reported to Leadership Board and other meetings on a regular basis.
- (i) The assurance framework that is in place to ensure Local Growth Fund monies are subject to appropriate levels of internal control and are focussed on the delivery of the Combined Authority's objectives and delivery of the Strategic Economic Plan.

Section 5: Significant Weaknesses In Governance and Internal Control

The system of governance (including the system of internal control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, that value for money is being secured and that significant risks impacting on the achievement of our objectives have been mitigated.

The review highlighted no significant weaknesses in governance or internal control during 2016/17.

Section 6: Conclusion

We consider the governance and internal control environment operating during 2016/17 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

The annual review has shown that the arrangements are in place and operating as planned.

We have been advised on the implications of the review by the Governance Committee. We propose over the coming year to continue to improve our governance and internal control arrangements.

Interim Head of Paid Service
Full Name: Helen Golightly

Signature:

Date:

Chair of the Combined Authority
Full Name: Paul Watson

Signature:

Date:

North East Combined Authority
Monitoring Officer Assurance Statement for 2016/17

The Monitoring Officer is a statutory appointment under section 5 of the Local Government and Housing Act 1989 and has a key role in ensuring the ethical governance of the Authority. The responsibilities of the Monitoring Officer are set out in part 3.6 (B) of the North East Combined Authority's Constitution.

For the North East Combined Authority the Head of Law and Governance (North Tyneside Council) acts as interim Monitoring Officer.


Within the Authority the following processes have been in place during 2016/17 to provide the Monitoring Officer with assurance on the Authority's governance arrangements.

- The NECA Constitution is in place and has been kept under review;
- Reports to the Leadership Board and other committees include a section on the legal implications of the report;
- The Monitoring Officer attends meetings of Leadership Board, Overview and Scrutiny Committee and Governance Committee, Transport North East Committee and the Transport North East (Tyne and Wear) Sub Committee;
- A register of Members' interests (including gifts and hospitality) is maintained.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's governance are in place and operating effectively.

Interim Monitoring Officer Signature:

Full Name (in capitals)


VIVIANNE M. GEAR

Date: 11.5.17

North East Combined Authority

Senior Information Risk Owner (SIRO) Assurance Statement for 2016/17

The SIRO's role is to support the implementation of international/government standard for information management and security in the Authority. The legislation to support this role is within the following:

- 2008 Data Handling Review (post HMRC data loss)
- ISO/IEC 27001:2005 dated 15 October 2005
- Closely coupled to Government Connect (4.1) Code of Compliance
- 1998 Data Protection Act

The SIRO's responsibilities are listed below:-

- Ultimately accountable for assurance of information security at the Authority
- Champions information security at Senior level
- Provides an annual statement of the security of information assets for the Annual Governance Statement

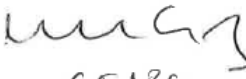
For the North East Combined Authority the officer holding the position of SIRO is the interim Monitoring Officer for NECA.

Within the Authority the following processes have been in place during 2016/17 to provide the SIRO with assurance on Information Governance - Information security of the Authority's information is provided through the systems of control in the Authorities providing support.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's information are in place and operating effectively.

Senior Information Risk Owner Signature:

Full Name (in capitals)


VIVIANNE W. CAREY

Date:

11.5.17

North East Combined Authority

Chief Finance Officer Assurance Statement for 2016/17

Section 73 of the Local Government Act 1985 requires new authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Finance Officer to have responsibility for those arrangements.

In addition CIPFA have produced a Statement on the Role of the Chief Finance Officer which sets out how the requirements of legislation and professional standards should be fulfilled by officers in the carrying out of their role.

For the North East Combined Authority an appointment has been made of interim Chief Finance Officer.

Within the Authority the following processes have been in place during 2016/17 to provide the Chief Finance Officer with assurance on financial affairs:

- Monitoring of all budgets by appropriate officers;
- Leadership Board received a regular finance update;
- Governance Committee review of budget reports;
- High level financial risk assessment set out in budget report;
- Review of financial implications / risks within individual Leadership Board and other committee reports;
- Delivery of the Internal Audit Plan and specifically financial systems audit work.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's financial affairs are in place and operating effectively.

Interim Chief Finance Officer

Signature:



Full Name (Capitals)

PAUL JOHNSON WOODS

Date:

14/6/2017

Partnership Assurance Statement (PAS) 2016/17

(*) The responsible office for each partnership has been asked to sign a declaration as follows:

“I confirm that the above is a fair reflection of the governance, internal control and risk management arrangements in place during the period for the partnership and that governance and internal control systems are in place/not in place (delete as appropriate) and operating effectively”

	Partnership	Lead Organisation	PAS received	Effective controls are in place (*)	Comments – These points have been identified on the assurance statement although do not have significant impact for the AGS
1	Association of Northern Transport Authorities (Working through Rail North to devolve decision making on rail services across the North of England)	Nexus	Yes	Yes	As this Partnership works through Rail North only one Statement has been completed which covers both Partnerships
2	North East Smart Ticketing Initiative (NESTI) The main aims of the NESTI Project are the introduction of a region-wide smart ticketing infrastructure on all public transport as well as the introduction of a single smart payment method accepted on all forms of public transport.	Nexus	Yes	Yes	The NESTI project is expected to conclude during 2018/19. Sign-off and close out will continue to be through the Association of North East Councils (ANEC)
3	North East Local Enterprise Partnership (NELEP) The enterprise partnership is a business-led, strategic partnership responsible for promoting and developing economic growth in the area.	North East Local Enterprise Partnership	Yes	Yes	None
4	Rail North Limited Working in partnership with the Department for Transport to devolve decision-making on rail services across the North	Nexus	Yes	Yes	The assurance for the Rail North Limited partnership is included within the Association of Northern Transport Authorities statement as noted above.

	of England, grow the region's railway network and manage the new Northern and TransPennine franchises.				
5	TT2** To design, build, majority finance, and operate the new vehicle tunnel, carry out the full refurbishment of the existing vehicle tunnel, and operate all the Tyne Tunnels until 2037.	Newcastle City Council	Yes	Yes	None
6	Transport for the North To create a northern transport strategy in order to align transport investment in pursuit of building the northern powerhouse.	Newcastle City Council	Yes	Yes	In March the Transport for the North (TfN) Partnership Board received a positive response from the Secretary of State for Transport to its submission to become the first Sub-National Transport Body (STB) in the UK. The organisation and its Partners now need to decide if they wish to work together formally through the final stages of becoming an STB, which could, with full agreement, gain formal statutory status by the end of 2017.
7	East Coast Mainline Authorities The Consortium of East Coast Main Line Authorities represents Local Authorities and Scottish Regional Transport Partnerships throughout the area served by the East Coast Main Line.	Newcastle City Council	Yes	Yes	None

Notes

Nexus - Nexus is not included in the register due to its status as an officer of the Combined Authority rather than a partner. Partnership arrangements for Nexus are recorded separately to the arrangements for the North East Combined Authority. A signed statement is at Appendix 4.

TT2** - This is a Services Concession, which is a form of services contract rather than a partnership relationship in the strictest sense, but is included within the register for completeness due to the significance of the relationship.

NEXUS

Assurance Statement for 2016/17

Through the North East Combined Authority Order 2014 the Tyne and Wear ITA was abolished and its functions were passed to the North East Combined Authority (NECA). Under the Order while Nexus remained as a separate 'body corporate by statute' it also became an Executive body and an officer of NECA, supplanting the previous statutory arrangements with the ITA.

As part of its governance review, undertaken during the latter part of 2014/15 and early 2015/16, Nexus' reporting arrangements and accountability to the NECA were strengthened as follows:-

- Nexus' performance against the delivery of its Corporate Business Plan was reported on a regular basis to the Tyne and Wear Sub Committee (TWSC) of the Transport North East Committee (TNEC);
- Nexus' strategic risk register and its risk management arrangements were reported on a regular basis to the TWSC;
- Nexus reported its financial performance on a quarterly basis to the TNEC as part of the NECA Chief Finance Officer's composite monitoring reports for both revenue and capital expenditure;
- Nexus sought authorisation for key decisions at the TWSC, TNEC and the North East Leadership Board (NELB), as appropriate; and
- Nexus officer attendance at both the NECA Governance and Overview and Scrutiny Committees as requested during the course of the year.

Within Nexus the following arrangements have been in place during 2016/17 which enables Nexus to provide further assurance on its governance arrangements:

- Weekly meetings of the Corporate Management Team took place and were minuted, recording all delegated decisions taken in accordance with Nexus' Standing Orders and Financial Regulations;
- The 2016/17 Internal Audit Plan was kept under review by Nexus' Audit Committee which comprises three members who are independent of Nexus' executive arrangements;
- External Audit provided clean opinions on the 2015/16 statutory accounts (true and fair view and value for money conclusion);
- Effective partnership and contracting arrangements were in place;
- External scrutiny of the Metro Asset Renewal Plan delivery arrangements by the Department for Transport took place; and
- In addition, Nexus participated in two external validation exercises at DfT's behest in regards its management of the 'Metro Futures' and 'Metro Asset Renewal' programmes, where positive assurance was obtained by the external validators.

I confirm that based on this evidence the internal control, risk management and governance arrangements at Nexus are in place and operating effectively.

Director of Finance Signature:


.....
John Fenwick, CPFA

Date:

5 April 2017



Governance Committee

Date: 4 July 2017

Subject: Internal Audit 2016/17 Annual Report and Internal Audit Plan 2017/18 to 2018/19

Report Of: Audit, Risk and Insurance Service Manager

Executive Summary

The purpose of this report is to provide Members with:

- A summary of the outcomes from the delivery of the 2016/17 internal audit plan
- Information on the implementation of audit recommendations
- An opinion on the effectiveness of NECA's control environment during 2016/17 as required by the Public Sector Internal Audit Standard (PSIAS) 2013.
- A draft internal audit plan for 2017/18 to 2018/19.

The Audit, Risk and Insurance Service Manager's Opinion on the overall adequacy and effectiveness of NECA's governance, risk and control framework during 2016/17 was that it was effective and provided a substantial level of assurance.

Recommendations

It is recommended that the Committee:

- Note the internal audit activity undertaken during 2016/17
- Consider the annual opinion of the Audit, Risk and Insurance Service Manager on NECA's control environment in 2016/17
- Approve the 2017/18 – 2018/19 Internal Audit Plan.

Governance Committee

1 Background Information

2016/17 Audit Plan

- 1.1 Set out below are the Internal Audit reports which have been issued and reported to the Governance Committee during the year. The above opinion is based on evidence from this internal audit work. Definitions for levels of assurance are included in Appendix 1.

Audit	Outcome/Level of Assurance	Committee Reported To
Financial Management	Substantial	December 2016
Partnerships	Substantial	December 2016
North East Local Enterprise Partnership	Substantial	April 2017
Tyne Tunnel Toll Income	Substantial	April 2017
Concessionary Travel	Full	June 2017
Metro Re-Invigoration – <i>major project asset replacement programme</i>	Substantial	June 2017
Local Growth Fund Grant Claim	Compliant with grant criteria	December 2016
Procurement investigation	Not applicable	December 2016

- 1.2 Internal Audit's performance in completing audit work in the 2016/17 Plan has been reported to the Governance Committee throughout the year.
- 1.3 The Nexus internal audit service has completed audits of Concessionary Travel and Metro Reinvigoration (known as Major Project Asset Replacement programme) as part of the Nexus plan. These audits are complete and will be reported to the next Nexus Audit Committee but have been noted against the NECA audit plan as they provide assurance on major aspects of activity. The outcomes from these audits have been presented to NECA as they were previously to the Tyne and Wear ITA.
- 1.4 It was agreed at the April 2017 meeting of the Committee that an Assurance Mapping exercise should be undertaken by Internal Audit for NECA. This work is ongoing but the initial evidence obtained to date has fed into the production of the internal audit plan and Annual Governance Statement. This work will continue and be reported to future Governance Committees.

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Implementation of Outstanding Recommendations

- 1.5 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high, medium and value for money recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. 15 of 16 recommendations have been implemented. The current position as regards the 1 outstanding recommendation is detailed below:

	Audit and Recommendation	Lead Officer/ Implementation due date	Progress update
1	Major Projects		
1.1	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 Original date 1 April 2016 Revised date 1 January 2018 (unchanged from the previous Governance Committee)	Work will commence to develop these protocols when there is greater certainty around the structure and future governance of NECA.

- 1.6 The current position as regards outstanding recommendations raised in 2015/16 and 2016/17 is detailed below:

	2015/16	2016/17
Recommendations issued	10	6
Recommendations fully implemented	9 (90%)	6 (100%)
Recommendations not yet due for implementation	0 (0%)	0 (0%)
Recommendations not fully implemented and the target date for implementation has been exceeded	1 (10%)	0 (0%)

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2016/17 Overall Opinion of the Chief Audit Executive

- 1.7 This report meets the requirements of Public Sector Internal Audit Standards 2013 to produce an annual report, which are as follows:-

“The Chief Audit Executive (Audit, Risk and Insurance Service Manager) must deliver an annual internal audit opinion and a report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control.”

- 1.8 The Audit, Risk and Insurance Service Manager’s Opinion on the overall adequacy and effectiveness of NECA’s governance, risk and control framework during 2016/17 was that it was effective and provided a substantial level of assurance. No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such absolute assurance.

Assessment of the Effectiveness of Internal Audit

- 1.9 To comply with the Public Sector Internal Audit Standards (PSIAS), authorities need to undertake an annual review of the effectiveness of Internal Audit and the outcomes of this review should be reported to an appropriate Committee of the Authority, such as the Governance Committee, and feed into the assurance to support the Annual Governance Statement. They must also be externally assessed against the Standard at least once in a 5 year period.

- 1.10 The audits were delivered primarily by Newcastle City Council in 2016/17, although the Nexus internal audit service undertook 2 pieces of work as part of its audit plan and Sunderland City Council one from which the Governance Committee could take assurance. During 2015/16 Newcastle’s audit service was externally assessed against the PSIAS (this is required once every 5 years) via a peer review and this concluded that:

“Newcastle City Council’s Internal Audit Service is substantially compliant with the requirements of the Public Sector Internal Audit Standards, and the accompanying CIPFA Local Government Application Note. There are two discrete areas, both of which were introduced for the first time by the Standards, in which some additional actions would secure full compliance.

The external assessment has identified no areas of concern regarding the delivery of the internal audit function, or the ability of the Chief Audit Executive (Audit, Risk and Insurance Service Manager) to form an opinion based on an

Governance Committee

objective assessment of the Council's framework of governance, risk management and control."

- 1.11. The recommendations made at the 2015/16 assessment have been implemented and there have been no major changes in internal audit's operating model.
- 1.12 Nexus and Sunderland had similar external assessments undertaken by Mazars which also found them to be substantially compliant with the Standard.

Proposed Audit Plan 2017/18 – 2018/19

- 1.13 The proposed Internal Audit Plan aims to support the Combined Authority in developing as well as giving the Governance Committee assurance on the effectiveness of controls in place. A draft plan is attached at Appendix 2.
- 1.14 Newcastle City Council's Internal Audit service will co-ordinate the planning and reporting of Internal Audit activity to the Governance Committee.
- 1.15 The Internal Audit Plan reflects the current position of the Combined Authority and covers the following:
- Advice and consultancy on the design, development and implementation of key business activities.
 - Review of newly established arrangements to ensure they operate as expected and efficiently.
 - Audit of key business areas supporting the organisations.
- 1.16 The plan has been prepared by the Audit, Risk and Insurance Service Manager based on a risk assessment of the Combined Authority and after considering the following:-
- Review of the Strategic Risk Register, and risks identified in other documents such committee reports
 - Consultations with:
 - Chief Finance Officer
 - Monitoring Officer
 - Governance Committee
 - Staff within the Internal Audit Service
 - Consideration of evidence for the 2016/17 Annual Governance Statement
 - Outcomes of audits undertaken in 2016/17
 - Known national developments and changes in legislation

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- 1.17 The plan covers 2 years but 2018/19 is only indicative and a review will take place in early 2018 to ensure it continues to reflect the risk environment the Combined Authority operates in.

2 Proposals

- 2.1 The Governance Committee are asked to note the internal audit activity during 2016/17 and approve the 2017/18 – 2018/19 internal audit plan.

3 Reasons for the Proposals

- 3.1 Governance Committee continue to fulfil an ongoing review, challenge and assurance role in relation to governance and internal control issues.

4 Next Steps and Timetable for Implementation

- 4.1 The 2016/17 audit work and opinion feeds into the Annual Governance Statement for 2016/17 which is elsewhere on this agenda. Work will also commence to deliver the 2017/18 internal audit plan.

5 Potential Impact on Objectives

- 5.1 No direct impact on objectives.

6 Finance and Other Resources Implications

- 6.1 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.

7 Legal Implications

- 7.1 No direct legal implications arising specifically from the report.

8 Key Risks

- 8.1 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.

9 Equality and Diversity

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

10 Crime and Disorder

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

11 Consultation/ Engagement

- 11.1 The Head of Paid Service, Monitoring Officer, Chief Finance Officer and Chair of the Governance Committee have consulted on the internal audit activity.

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12 Other Impact of the Proposals

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

13 Appendices

- 13.1 Appendix 1 - Definitions
Appendix 2 – 2017/18 – 2019/20 internal audit plan

14 Background Papers

- 14.1 Final Internal Audit Reports

15 Contact Officers

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

16 Sign off

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

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Appendix 1 - Definitions

Overall Opinion

Full Assurance

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

Substantial Assurance

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

Moderate Assurance

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

Limited Assurance

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

No Assurance

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

Findings and Recommendations

High

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

Medium

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

Low

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

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Draft Internal Audit Plan		Appendix 2	
2017/18 Audits	Audit scope and coverage	Days	Date to report to Governance Committee
Treasury Management	To assess the adequacy and effectiveness of treasury management arrangements, i.e. monitoring cashflows and investment / borrowing activity.	5	April 2018
Human Resources Arrangements	To review human resources arrangements for the Combined Authority including policies, recruitment, training and arrangements for the engagement of agency/contractors staff.	5	December 2017
Information Governance and Freedom of Information	To review arrangements in relation to information governance particularly to consider the Combined Authority's preparations for changes in Data Protection regulations coming in during 2018. The audit will also cover procedures to deal Freedom of Information requests	5	December 2017
Procurement	To consider procurement arrangements for all NECA activity and compliance with Financial Regulations to ensure these provide NECA with value for money and adequate assurance.	5	September 2017
Repayment of LEP Loans from the North East Investment Fund	This audit is scheduled towards the end of the year and will consider loans and control loans and repayment arrangements.	5	April 2018
Contingency	Provision to cover emerging risks, fraud investigation and general advice.	5	As required
Governance Committee Support	<ul style="list-style-type: none"> • Development and monitoring delivery of the Internal Audit Annual Plan. • Preparation of reports to and attendance at Governance Committee. • Follow up on the implementation of recommendations made within Internal Audit reports. • Provide training for Members • Assurance Mapping 	5	As required

Governance Committee

2018/19 Audits	Audit scope and coverage	Days
Pedestrian and Cycle Tunnels	The project to refurbish the tunnels is scheduled for completion in 2018 and this audit will consider the various stages of the project, including contract arrangements, to determine if controls operated effectively and whether there is opportunity to learn lessons from the work.	5
Implementation of the Local Growth Fund programme.	The audit will review arrangements and controls in operation for the local growth fund in relation to finance and monitoring progress with activities funded through the programme.	5
Governance	Review of the operation of governance arrangements in place and provide appropriate advice to officers establishing processes for reporting and monitoring.	5
Budget Setting and Monitoring Arrangements	To review the effectiveness of budgetary control within NECA.	5
Tyne Tunnel Income	To ensure income is collected securely and properly accounted for within contractual arrangements	5
Contingency	Provision to cover emerging risks, fraud investigation and general advice.	5
Governance Committee Support	<ul style="list-style-type: none"> • Development and monitoring delivery of the Internal Audit Annual Plan. • Preparation of reports to and attendance at Governance Committee. • Follow up on the implementation of recommendations made within Internal Audit reports. • Provide training for Members • Assurance Mapping 	5



Governance Committee

Date: 4 July 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.

Recommendations

Governance Committee are asked to:

- I. 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
- II. Acknowledge the strategic risk review by the Leadership Board and receive an update at today's meeting

Governance Committee

1 Background Information

- 1.1 The risks continue to be closely monitored following the uncertainty surrounding future membership, as the North of Tyne Authorities continue to discuss with Government a North of Tyne area deal.
- 1.2 The Committee will receive a full update on the strategic risk register at their September 2017 meeting.
- 1.3 Appendices A and B provide the Committee with details of each risk. The Toolkit at Appendix C is used to determine the risk priority.
- 1.4 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. Reason for the Proposals

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

4. Next Steps and Timetable for Implementation

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

5. Potential Impact on Objectives

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

6. Finance and Other Resources Implications

- 6.1 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.

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- 7. Legal Implications**
There are no direct legal implications arising specifically from this report.
- 8. Key Risks**
There are no direct risk management implications from this report. The approach to risk management is documented within the agreed policy and strategy.
- 9. Equalities and Diversity**
There are no equalities and diversity implications directly arising from this report
- 10. Crime and Disorder**
There are no crime and disorder implications directly arising from this report.
- 11. Consultation /Engagement**
The Head of Paid Service, Monitoring Officer and Chief Finance Officer have consulted on the Strategic Risk Register
- 12. Other Impact of the Proposals**
The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.
- 13. Appendices**
Appendix A – ‘Risk at a glance’ shows live risks, risk priority and direction of travel
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
- 13. Background Documents**
There are no background documents
- 14. Contact Officers**

Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council.
Philip.slater@newcastle.gov.uk.
Telephone - 0191 2116511
- 15. Sign off**
 - Head of Paid Service ✓
 - Monitoring Officer ✓
 - Chief Finance Officer ✓

Governance Committee

Risk at a glance		Appendix A
Risk Title & Description	Risk Priority	Direction of Travel

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

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Appendix B

<p><u>Effectiveness</u></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><u>Risk Owner</u> Interim Head of Paid Service</p> <hr/> <p><u>Risk Score</u></p> <p style="background-color: red; color: white; text-align: center;">Red 12</p> <hr/> <p>Likelihood – Medium Impact - Critical</p>
<p>Cause: 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>Impact/Consequence: The Authority may no longer continue to operate as effectively due to a reduced membership and changes to its boundaries.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The Constitution covers the current operating model • The Order provides for the existence of the NECA and specifies its current membership and functions • There is an agreed schedule/programme of meetings involving Leaders, Chief Executive’s and Economic Directors • Formal decision making committees including Leadership Board, Transport North East, and Transport North East Sub Committee • The LA7 continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Economic Directors, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees. • The Strategic Economic Plan has been refreshed by the North East LEP to ensure the economic priorities remain current, reflecting the region’s economic position • 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 • 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 	
<p><u>Next Steps</u></p> <ul style="list-style-type: none"> • Identify the potential impacts an alternative devolution deal would have on the current governance and working arrangements of NECA • Understand the legal and decision making process associated with the potential changes to NECA that a North of the Tyne devolution deal will bring 	

Governance Committee

<p><u>European Funding</u></p> <p>Failure to secure the notional funding previously identified through European Structural and Investment Funding Scheme will jeopardise delivery of the Strategic Economic Plan.</p>	<p><u>Risk Owner</u> Interim Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood - Medium Impact – Low</p>
<p>Cause: 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>Impact/Consequence: 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><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • Government has given assurances that key projects supporting economic development will be honoured if they were signed before the Autumn Statement 2016 • 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. • The Combined Authority and the North East LEP have secured £58.5m of JEREMIE 2 grant funding (part of the European Structural and Investment Fund) and a Special Purpose Vehicle has been established to deliver funding for projects, supporting small and medium sized enterprises • 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. • The Strategic Economic Plan has been refreshed to ensure its priorities remain current. The Plan is aligned to a European Structural and Investment Fund Strategy, to direct the allocation of European Funding 2014-2020 to grow the North East Economy 	
<p><u>Next Steps:</u></p> <ul style="list-style-type: none"> • 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 secure ESIF for projects whilst the UK is in the EU, and some projects to spend after leaving the EU. 	

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<p><u>Operational Capacity and Resourcing</u></p> <p>The Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority’s objectives.</p>	<p><u>Risk Owner</u> Interim Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact - Critical</p>
<p>Cause:</p> <p>The uncertainty following the withdrawal of the devolution deal has contributed to:</p> <ul style="list-style-type: none"> • The Authority’s commitment to secure permanent senior staff and secondment opportunities, resulting in key officer disciplines and resource requirements being at risk • The North of Tyne proposal may result in current officer resources being reduced 	
<p>Impact/Consequence:</p> <p>Without permanent Statutory Officers and recruitment into other officer positions, the Authority will be unable to improve its effectiveness whilst carrying out its statutory responsibilities and core activities.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • 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 • Service Level Agreements continue to provide key officer support to Statutory Officers and Leadership Board • Partners continue to engage through the formal meetings of the Combined Authority and LA7, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels • Economic Directors Group have put in place a significant programme of work, looking at the impact of Brexit on the economy, Local Authority finances and the region more widely • The Leadership Board has agreed a budget for 2017/18 • As part of the budget process Chief Executives and the Interim Head of Paid Service identified the risks relating to capacity and political commitment 	
<p><u>Next Steps:</u></p> <ul style="list-style-type: none"> • Develop a plan to address the capacity and resourcing risks within the Combined Authority, in particular the recruitment of permanent statutory officers. In the event of a North of Tyne Devolution Deal future operational capacity and resource risks should also be considered. 	

North East Combined Authority

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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	<ul style="list-style-type: none"> Over half the objectives/programmes affected More than one critical objective affected Partners do not commit to the Shared vision 	<ul style="list-style-type: none"> Significant change in partner services Relationship breakdown between major partners and stakeholders Serious impact on delivery of Strategic Investment Plans Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project 	<ul style="list-style-type: none"> Inability to secure or loss of significant funding opportunity (£5m) Significant financial loss in one or more partners (£2m) Significant adverse impact on budgets (£3m – Transport / NELEP; £0.2m Central Budget) 	<ul style="list-style-type: none"> Adverse national media attention External criticism (press) Significant change in confidence or satisfaction of stakeholders Significant loss of community confidence
Significant	<ul style="list-style-type: none"> One or more objectives/programmes affected One or more partners do not commit to shared vision Significant environmental impact 	<ul style="list-style-type: none"> Partner unable to commit to joint arrangements Recoverable impact on delivery of Strategic Economic Plan Major project failure 	<ul style="list-style-type: none"> Prosecution Change in notable funding or loss of major funding opportunity (£2m) Notable change in a Partners contribution Notable adverse impact on budget (£0.5m-£1.5m Transport or NELEP budgets) 	<ul style="list-style-type: none"> Notable external criticism Notable change in confidence or satisfaction Internal dispute between partners Adverse national/regional media attention Lack of partner consultation Significant change in community confidence
Minor	<ul style="list-style-type: none"> Less than 2 priority outcomes adversely affected Isolated serious injury/ill health Minor environmental impact 	<ul style="list-style-type: none"> Threatened loss of partner's commitment 	<ul style="list-style-type: none"> Minor financial loss in more than one partner Some/loss of funding or funding opportunity threatened 	<ul style="list-style-type: none"> Failure to reach agreement with individual partner Change in confidence or satisfaction Minor change in community confidence
Insignificant	<ul style="list-style-type: none"> Minor effect on priorities/service objectives Isolated minor injury/ill health No environmental impact 		<ul style="list-style-type: none"> Isolated/minor financial impact in a partner organisation 	

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