

## Governance Committee

Tuesday 5th December, 2017 at 2.00 pm

Meeting to be held: Northumberland County Council, County Hall Morpeth NE61 2EF

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## AGENDA

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1. <b>Apologies for absence</b>	
2. <b>Declarations of Interest</b>	
Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.	
3. <b>Minutes and Notes of Previous Meetings:</b>	
(a) <b>4 July 2017</b>	1 - 4
(b) <b>Inquorate Meeting - Notes of 12 September 2017</b>	5 - 10
4. <b>General Data Protection Regulation (GDPR) and the Impact on NECA's Information Governance Policy</b>	11 - 32
5. <b>Request appoint a Governance Sub-committee to consider applications for Dispensations - Newcastle International Airport Limited Board</b>	33 - 44
6. <b>Annual Audit Letter 2016/17</b>	45 - 60
7. <b>Draft Budget 2018-19 Consultation</b>	61 - 82

8.	<b>Strategic Risks and Opportunities Register</b>	<b>83 - 96</b>
9.	<b>Internal Audit Progress Report</b>	<b>97 - 106</b>
10.	<b>Annual Governance Statement</b>	<b>107 - 110</b>
11.	<b>Date and Time of Next Meeting</b>	

Tuesday 3 April 2018 at 2.00pm at Sunderland Civic Centre

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

**To: All Members**

## North East Combined Authority, Governance Committee

4 July 2017

(2.00 pm - 3.15 pm)

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

### Present:

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

Councillors: H Haran (Gateshead), B Kellet (Reserve - Durham), M Talbot (Newcastle), M Swinburn (Northumberland) and G Hobson (South Tyneside)

### 1 APOLOGIES FOR ABSENCE

Apologies for absence were received from E Bell (Durham), H Trueman (Sunderland) and S Gardner (Independent Person)

### 2 DECLARATIONS OF INTEREST

None

### 3 MINUTES OF PREVIOUS MEETING HELD ON 4 APRIL 2017

Clarification was sought on Minute 43 – Finance Update. P Woods explained that details of the governance of the Special Purpose Vehicle (SPV), would be attached to the Minutes of this meeting.

**RESOLVED** - That the Minutes of the previous meeting held on 4 April 2017 be agreed as a correct record, subject to the following amendment then the Minutes be signed by the Chair:

- G Clark (Vice Chair) be removed from the list of Councillors in attendance and be included in list of Independent Persons.

### 4 GOVERNANCE COMMITTEE SELF-ASSESSMENT FEEDBACK

Submitted: Report by Mazars (External Auditor) (previously circulated and a copy attached to official minutes), which set out the findings of the survey, which gathered thoughts on how well the Governance Committee was performing and what improvements could be made. The Committee was advised that the overwhelming results were positive.

Reference was made to the possible need for additional members training in light of some of findings of the survey. The committee was advised that there was an

induction session for new members scheduled in July and reminded about previous training/briefing sessions provided to this committee. It was suggested that any briefing notes and/or copies of presentations, originally provided to the committee could be re-circulated. In addition, a ½ hour training session should be organised by the relevant lead officers and included as the first item of each future meeting. Specific areas initially to be covered were highlighted as: the role and remit of the committee; internal audit; external audit and risks and opportunities etc.

**RESOLVED** – That the findings of the survey be received and noted.

## 5 **2016-17 OUTTURN AND KEY FINANCIAL STATEMENTS**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which summarised the North East Combined Authority's financial results for 2016-17, presented the draft accounting statements and provided an overview of significant financial matters which occurred during the year.

During discussions, clarification was provided on the pension fund in relation to the impact of employee redundancies and adjustments in employer contributions; the capital expenditure of the Pedestrian Tyne Tunnel; the expenditure allocated for upskilling and the usable and reusable reserves. As a result of comments raised, P Woods advised that the report being prepared for the NECA Leadership Board would be strengthening. He also confirmed that an explanatory note would be included in the final accounts on the Pedestrian Tyne Tunnel capital expenditure and on the usable and unusable reserves. He offered the committee a brief training session on NECA Financial Accounts at the meeting scheduled in September 2017.

**RESOLVED** – That the report be received and noted.

## 6 **EXTERNAL AUDIT PROGRESS UPDATE**

Submitted: Report by External Auditor (previously circulated and a copy attached to official minutes), which presented an update on their progress in delivering their responsibilities as external auditors and also information on key emerging national issues and development.

P Woods appraised the committee about the progress being made on the national procurement exercise for establishing future public sector audit appointments. He emphasised the importance of appointing a single external auditor to deal with both with the NECA and NEXUS financial accounts to achieve continuity, good value for money and ensure targets were met within the allocated timescales.

On providing some clarification about how the narrative was produced on the national publications and other updates and responding to queries raised, C Waddell, agreed to provide a briefing note at a future meeting on the potential challenges and risks associated with the '*scheme for 100% retention of business rates by local authorities*' and the impact as a result of it not being reflected in Queen's Speech.

Congratulations was passed onto the Finance Team, particularly E Goodman for the efforts in ensuring there were no significant deficiencies found in the internal controls.

**RESOLVED** – That the report be received and noted.

## 7 **DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided details of the draft 2016-17 Annual Governance Statement for inclusion in the accounts.

Clarification was provided on the role of this committee in relation to any code of conduct issues that may arise.

In response to queries raised, P Woods agreed to circulate relevant papers, which provided updates on '*Transport for the North*', previously provided to TWSC and/or Leadership Board.

**RESOLVED** – That the Committee:

- (i) Agreed the draft 2016-17 Annual Governance Statement narrative after considering the evidence provided to supports its production.
- (ii) Acknowledged that the Statement would be subject to further review in September 2017, following the completion of the external audit of the accounts and before it was signed by the Head of Paid Service and Chair of the Combined Authority.

## 8 **INTERNAL AUDIT 2016/17 ANNUAL REPORT AND INTERNAL AUDIT PLAN 2017/18 TO 2018/19**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided 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 and a draft internal audit plan for 2017-18 – 2018-19.

C Waddell agreed to circulate the National briefing note on the changes to data protection as a result of the General Data Protection Regulation which takes effect in May 2018 to the committee; the Chair asking for a hard copy to be circulated to him.

**RESOLVED** – That the Committee:

- (i) Noted the internal audit activity undertaken during 2016-17.
- (ii) Considered the annual opinion of the Audit, Risk and Insurance Service Manager on NECA's control environment in 2016-17.

- (iii) Approved the 2017-18 and 2018-19 Internal Audit Plan.

## 9 **STRATEGIC RISK REGISTER AND OPPORTUNITIES REGISTER**

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

As a result of comments raised and ensuring clarification was provided, P Slater agreed to include a clearer statement on the risks associated with European Funding and to include web links to the NECA, LEP and NEXUS Risk Registers in future reports.

Reference was made to the progress being made to recruit additional support for E Goodman. P Woods provided an update on the progress, in addition to the progress being made on the succession planning for the NECA Strategic Officers.

**RESOLVED** – That the Committee:

- (i) Reviewed and challenged the outcomes of the strategic risk review.
- (ii) Acknowledged the strategic risk review by the Leadership Board and received an update; details of which was noted.

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

Tuesday 12 September 2017, 2pm, Durham County Council

**Inquorate Meeting of  
North East Combined Authority, Governance Committee**  
12 September 2017

(2.05 - 3.35 pm)

Meeting held Durham County Council, County Hall, Durham DH1 5UL

**Present:**

Independent Member: M Scrimshaw (Chair)

Councillors: M Talbot, M Swinburn and H Trueman (Sunderland)

**11 CHAIRS ANNOUNCEMENTS**

The Chair welcomed Peter Judge, the newly appointed NECA Monitoring Officer to his first meeting, explaining that he was replacing Viv Geary in this role.

The Chair thanked Viv for all her effort and hard work over the past few years, particularly the guidance and support she had given to him and the Vice Chair. Everything she had done was exemplary and she would be missed. On behalf of the committee, he extended best wishes. In responding, Viv thanked the Chair for his kind words, pointing out that she had enjoyed working for the Combined Authority but had only been able to do what she had because of the support of a lot of officers.

The Chair announced that the meeting was inquorate; however, stated that he intended to go through the business on the agenda. He referred to Accounts 2017 presentation slides, which had been provided, suggesting that as not all members were present at the meeting, the accounts briefing session would be deferred and held prior to the next meeting scheduled for December 2017.

**12 APOLOGIES FOR ABSENCE**

Apologies for absence were received from G Clark (Vice Chair), S Gardner (Independent Person) and Councillors E Bell (Durham), G Hobson (South Tyneside), H Haran (Gateshead).

**13 DECLARATIONS OF INTEREST**

None

**14 MINUTES OF PREVIOUS MEETING HELD ON 4 JULY 2017**

**RECOMMENDATION** – The Minutes of the previous meeting be received and be ratified at the next scheduled meeting 5 December 2017.

15 **INTERNAL AUDIT PROGRESS REPORT 2017/18**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and attached to official minutes), which provided Members with an update on progress against the delivery of the 2017/18 internal audit plan and information on the implementation of audit recommendations.

P Slater introduced the report. In responding to a query raised by the Chair, he confirmed that he did have sufficient capacity within his team and time to complete the audits and report their outcomes to the next meeting scheduled in December 2017.

**RECOMMENDED** - That the report be noted.

16 **ANNUAL GOVERNANCE STATEMENT**

Submitted: Report by Audit, Risk and Insurance Manager (previously circulated and a copy attached to official minutes), which provided members with the final 2016/17 Annual Governance Statement for their review and approval for inclusion in the annual accounts.

P Slater introduced the report, confirming the minor changes requested at the previous meeting had all been done.

The Chair requested that the Leadership Board be advised that the content had been considered in detail by the committee over the past couple of meetings.

**RECOMMENDED** – That Annual Governance Statement attached at Appendix 1 of the report was considered in detail and it was noted that it would be included in the annual accounts and would signed by the Chair of the Authority and Head of Paid Service.

17 **EXTERNAL AUDIT COMPLETION REPORT - YEAR ENDED 31 MARCH 2017**

Submitted: Report by External Auditor MAZARS LLP (previously circulated and a copy attached to official minute), which set out the findings of the audits of the NECA for the year ended 31 March 2017, and would formed the basis for discussion at the Leadership Board meeting on 19 September 2017.

C Waddell introduced the report. During discussions the following points were made:

- A comment was raised on there being no reference made in the report to the fact that the management team were appointed on an interim or temporary basis. The committee was advised that regular updates on the plans and responsibilities were reported. The risk was logged and monitored. At this point, P Woods explained the historical background about the interim statutory officer appointments, confirming details of the current position. He also provided an update on the issues around the temporary appointment and arrangements for E Goodman, Senior Accountant, during her leave of absence, confirming that following recent interviews an appointment was pending. As a result of the legal requirements to close off the accounts earlier



next year, support to that appointment, would be obtained through a junior member of staff being seconded.

- Clarification was sought around the wording in Appendix A – Summary of misstatements. It was confirmed that the wording would be amended to ensure clarity around there being no unadjusted misstatements 2016-17.

**RECOMMENDED** - That report be noted.

## 18 **STATEMENT OF ACCOUNTS 2016-17**

Submitted: Report by Chief Finance Officer (previously circulated and attached to official minutes), which presented the final, audited 2016/17 accounts for review by this committee. The 2016/17 audit programme was now largely complete and Mazars, the external auditor, expected to issue their opinion before the end of September. The NECA Leadership Board meeting scheduled on 19 September would receive the 2016/17 accounts for approval, taking into account any comments raised by this committee.

P Woods introduced the report, providing a detailed explanation of the key aspects. During discussion the following points were made:

- Reference was made to the comment about the largest area of capital expenditure being in relation to Transport and Digital Connectivity. Clarification was sought about the term 'digital connectivity'. It was agreed that the information reported to Leadership Board on the work and progress being made around digital connectivity would be consolidated and circulated to the committee.
- Clarification was provided about the reduction in metro patronage, with the possible reasons for the reduction being explained e.g. infrastructure renewal; metro reliability and aging fleet.
- Reference was made to conflicting figures included in the Chief Finance Officer's narrative report in relation to employment and skills. Clarification was also sought about the words used to describe the increase in rail passengers' journeys on local services. The Chief Finance Officer agreed to check the figures and ensure clarity was provided in the narrative of the report and at the Leadership Board that the increase in rail passengers' journeys on local services was 0.2million journeys.
- An explanation was provided about the initiatives used through soft loans on 'The Boiler Shop' and 'The Jesmond' projects.
- An update was provided on the current arrangements of development company, Arch.

**RECOMMENDED** - That the Statement of Accounts for 2016/17, including the amended accounting policies detailed in section 2.4 of the report and that it was to be presented to the Leadership Board for approval was noted.

## 19 **TREASURY MANAGEMENT 2017-18 MID-YEAR UPDATE**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which provided a summary of treasury management activity during 2017/18. The committee was advised that activity was in line with the

original budget for the year and no changes to the strategy were proposed as part of this mid-year review.

**RECOMMENDED** - That the report be noted.

## 20 **DRAFT BUDGET 2018-19 - PROCESS AND TIMETABLE**

Submitted: Report by Chief Finance Officer (previously circulated and attached to official minutes), which set out the process and timetable for the preparation, consultation and approval of the 2018/19 budget and indicative medium term financial strategy, including consultation proposed with the committee.

P Woods introduced the report confirming that this committee would be included in the circulation of the Draft NECA Leadership Board Budget Report, which was timetabled for dispatched 14 November 2017.

**RECOMMENDED** - That the report be noted.

## 21 **STRATEGIC RISK AND OPPORTUNITIES REGISTER**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which provided members with an update of the Strategic Risks and Opportunities for the NECA.

P Slater introduced the report and agreed to circulate the web link to the NE LEP Strategic Risks, stating that the link would be included in future reports.

**RECOMMENDED** - That the report be noted.

C Waddell, External Auditor left the meeting at 3.30pm

## 22 **CONSULTATION ON AUDITOR APPOINTMENT FROM 2018/19**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which updated the committee on the national scheme for auditor appointments administered by Public Sector Audit Appointments (PSAA). It was explained that PSAA proposed to appoint Mazars LLP as the auditor of NECA for a five year period from 2018/19. This was in line with outcome that NECA and the committee had been seeking.

**RECOMMENDED** - That the details on the appointment be noted.

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

Tuesday 5 December 2017 at 2.00pm, Northumberland County Council

A brief discussion took place on the format of the December meeting. Agreement was reached that a briefing session should be held between 1.30pm – 2.00pm, prior to the commencement of the meeting which gave a quick summary of the deferred presentation on Accounts 2017 (presentation slides that were provided to be circulated) and on finance in general. It was also agreed that an item be included on

the agenda to enable the committee to consider an alternative name for the NECA Governance Committee.

It was confirmed that notes taken at this meeting would be presented and ratified at the December meeting.

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## **Governance Committee**

**Date:** 5 December 2017

**Subject:** General Data Protection Regulation (GDPR) and the impact on NECA's Information Governance Policy

**Report of:** Monitoring Officer

### **Executive Summary**

The purpose of this report is to inform the Governance Committee of the changes required as part of the General Data Protection Regulation (GDPR) and consider the approach to the changes required for NECA.

### **Recommendations**

The Governance Committee is to be informed of the new regulations that will apply from the 25 May 2018 and consider the approach to the changes required for NECA's Information Governance Policy.

## **Governance Committee**

### **1. Background Information**

- 1.1 In March 2016, an Internal Audit Report regarding NECA's Information Governance was produced and presented to the Governance Committee on the 1 April 2016.
- 1.2 The Audit examined the Information Governance Policy, and other high level policies and procedures in place to manage information held and processed by the Combined Authority and ensure compliance with the Freedom of Information Act 2000 and the Data Protection Act 1998.
- 1.3 On the 25 May 2018, the General Data Protection Regulation (GDPR) will replace the Data Protection Act (DPA) 1998. Most of the main principles and concepts of the DPA will remain the same in the GDPR, however, there will be new elements that NECA will need to make to its Information Governance Policy.
- 1.4 This report outlines NECA's approach to the changes required in the legislation to ensure compliance of its data processing and management systems. The changes will also apply to the North East Local Enterprise Partnership (NELEP) with NECA being its Accountable Body.

### **2 Proposals**

- 2.1 This report proposes an outline of the steps NECA is required to take to ensure compliance with the new regulations and ensure that the Information Governance Policy and associated high level policies are refreshed in accordance with the new guidance.

### **3. Reasons for the Proposals**

- 3.1 NECA is required to comply with the GDPR that will apply from 25 May 2018. The data protection framework brings new requirements and significantly increased fines for breaches.

### **4. Next Steps and Timetable for Implementation**

- 4.1 To comply with the new requirements, NECA proposes the following approach detailed in Appendix 1 – Action Plan that has been developed in accordance with the guidance of the Information Commissioner's Office (ICO) Appendix 2.
- 4.2 Following completion of the tasks detailed in the Action Plan, an update will be detailed as part of the Internal Audit Report produced for the Governance Committee in April 2018.

## **Governance Committee**

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

- 5.1 The requirements of the new legislation will support NECA to deliver its services and functions effectively in the potential processing and managing of personal and sensitive information.

### **6. Financial and Other Resources Implications**

- 6.1 An important change to note in the regulations is the increased fines for organisations that fail to comply with the GDPR or permit data breaches. Penalties for serious data breaches can reach an upper limit of €20million, and less serious breaches or an organisation's failure to keep records may incur fines of up to €10million.

### **7. Legal Implications**

- 7.1 The GDPR increases the data protection obligations of the Combined Authority and provide a legal framework that it needs to comply with. Although NECA has existing data protection procedures in place, these will require a review to achieve the compliance needed.

### **8. Key Risks**

- 8.1 The financial and legal risk implications have been explored in this report and the changes required within the guidance will give positive assurances to ensure that appropriate control systems are in place.

### **9. Equality and Diversity**

- 9.1 There are no known implications.

### **10. Crime and Disorder**

- 10.1 There are no known implications.

### **11. Consultation/Engagement**

- 11.1 Consultation and engagement will take place to ensure that the new changes are adhered to. NECA Statutory Officers have been consulted with along with other officers across the authority who will engage in the action planning process.
- 11.2 Staff training and guidance will be issued ahead of the implementation date of the GDPR, as outlined in the Action Plan (Appendix 1).

## **Governance Committee**

### **12. Other Impact of the Proposals**

12.1 There are no other impacts on the proposals set out in this report.

### **13. Appendices**

13.1 Appendix 1 – Action Plan

13.2 Appendix 2 – Preparing for the GDPR – Information Commissioner’s Office (ICO) Guidance

### **14. Background Papers**

14.1 Audit, Risk and Insurance Service – Information Governance Report – March 2016

14.2 NECA’s Information Governance Policy

### **15. Contact Officers**

15.1 Peter Judge, Monitoring Officer, [peter.judge@northeastca.gov.uk](mailto:peter.judge@northeastca.gov.uk)  
07342 069 371

### **16. Sign off**

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

### **17. Glossary**

DPA - Data Protection Act 1998

GDPR – General Data Protection Regulation

ICO – Information Commissioner’s Office

NECA – North East Combined Authority

NELEP – North East Local Enterprise Partnership



NECA's Action Plan for the General Data Protection Regulation (GDPR)  
and the impact on NECA's Information Governance Policy

Area of implementation required	Information Commissioner's Officer (ICO) Guidance	Actions for NECA	Target completion date
<b>Awareness raising</b>	<ul style="list-style-type: none"> <li>• Ensure that decision makers and key people in the organisation are aware that the law is changing to the GDPR.</li> <li>• identify areas that could cause compliance problems under the GDPR</li> </ul>	Briefing to NECA Statutory Officers  Briefing to Governance Committee  Staff Training	November 2017  December 2017  April 2017
<b>Audit of data held</b>	<ul style="list-style-type: none"> <li>• Document personal data held, where it came from and who we share it with.</li> </ul>	Develop a Data Audit Questionnaire and share with staff  Collate and analyse information from Data Audit Questionnaire and map data sources	November 2017  January 2018

<b>Consent</b>	<ul style="list-style-type: none"> <li>• Review how you seek, obtain and record consent and whether you need to make any changes.</li> <li>• GDPR is clear that controllers must be able to demonstrate that consent was given</li> </ul>	Incorporated as part of Data audit and questionnaire	November 2017
<b>Data Protection Officer</b>	<ul style="list-style-type: none"> <li>• Designate a Data Protection Officer, or someone to take responsibility for data protection compliance and assess where this role will sit within the organisation's structure and governance arrangements.</li> </ul>	Data Protection Officer to be identified.	November 2017
<b>Communication privacy information</b>	<ul style="list-style-type: none"> <li>• Review current privacy notices and put a plan in place for making any necessary changes in time for the GDPR implementation.</li> <li>• Organisations will need to explain their legal basis for processing data, data retention periods and that individuals have a right to complain to the ICO if they</li> </ul>	<p>Develop a Privacy Notice that identifies:</p> <ul style="list-style-type: none"> <li>• What information we use</li> <li>• How we collect information</li> <li>• Who we share information with</li> <li>• How long we keep information</li> </ul> <p>Ensure a Privacy Notice is clear on any electronic forms used to collect data</p>	February 2018

	think there is a problem with the way an organisation is handling their data.		
<b>Data Protection by Design and Data Protection Impact Assessments</b>	<ul style="list-style-type: none"> <li>• When processing is likely to cause high risk of harm to the individual the data controller needs to complete a Data Protection Impact Assessment</li> <li>• When an Assessment indicates high risk data processing, there is a requirement for the organisation to consult with the ICO to seek its opinion as to whether the processing operation complies with the GDPR</li> </ul>	Develop a process and procedure for Privacy Impact Assessments.	February 2018
<b>The rights of individuals</b>	<p>Procedures in place to ensure they cover all the rights individuals have, including:</p> <ul style="list-style-type: none"> <li>• how you would delete personal data</li> <li>• how data is electronically provided</li> </ul> <p>The main rights for individuals under the GDPR will be:</p> <ul style="list-style-type: none"> <li>• subject access,</li> <li>• to have inaccuracies</li> </ul>	Process to be put in place and captured within Information Governance Policy that captures the rights of individuals and the provision and deletion of personal data.	March 2018

	<p>corrected,</p> <ul style="list-style-type: none"> <li>• to have information erased,</li> <li>• to prevent direct marketing,</li> <li>• to prevent automated decision-making and profiling, and</li> <li>• data portability.</li> </ul>		
<b>Subject Access Requests (SAR)</b>	<ul style="list-style-type: none"> <li>• Update procedures and plan how you will handle requests within the new timescales and provide any additional information.</li> <li>• SAR to be dealt with in a month rather than current 40 days</li> </ul>	Develop procedures regarding subject access requests.	March 2018
<b>Data breach procedure</b>	<ul style="list-style-type: none"> <li>• Have procedures in place to detect, report and investigate a personal data breach.</li> <li>• Not all breaches will have to be notified to the ICO – only ones where the individual is likely to suffer some form of damage, such as through identity theft or a confidentiality breach.</li> </ul>	Develop a data breach and security policy that will incorporate procedures to detect, report and investigate.	April 2018

<b>Wider Data Protection Policies identified for NECA review</b>		NECA to consider the wider policies that fall within Information Governance and refresh accordingly: <ul style="list-style-type: none"><li>• FOI guidance</li><li>• Protective marking scheme</li><li>• information Security breach Protocol response</li></ul>	
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# Preparing for the General Data Protection Regulation (GDPR)

12 steps to take now

# Preparing for the General Data Protection

## Regulation (GDPR) 12 steps to take now

1

### Awareness

You should make sure that decision makers and key people in your organisation are aware that the law is changing to the GDPR. They need to appreciate the impact this is likely to have.

2

### Information you hold

You should document what personal data you hold, where it came from and who you share it with. You may need to organise an information audit.

3

### Communicating privacy information

You should review your current privacy notices and put a plan in place for making any necessary changes in time for GDPR implementation.

4

### Individuals' rights

You should check your procedures to ensure they cover all the rights individuals have, including how you would delete personal data or provide data electronically and in a commonly used format.

5

### Subject access requests

You should update your procedures and plan how you will handle requests within the new timescales and provide any additional information.

6

### Legal basis for processing personal data

You should look at the various types of data processing you carry out, identify your legal basis for carrying it out and document it.

7

### Consent

You should review how you are seeking, obtaining and recording consent and whether you need to make any changes.

8

### Children

You should start thinking now about putting systems in place to verify individuals' ages and to gather parental or guardian consent for the data processing activity.

9

### Data breaches

You should make sure you have the right procedures in place to detect, report and investigate a personal data breach.

10

### Data Protection by Design and Data Protection Impact Assessments

You should familiarise yourself now with the guidance the ICO has produced on Privacy Impact Assessments and work out how and when to implement them in your organisation.

11

### Data Protection Officers

You should designate a Data Protection Officer, if required, or someone to take responsibility for data protection compliance and assess where this role will sit within your organisation's structure and governance arrangements.

12

### International

If your organisation operates internationally, you should determine which data protection supervisory authority you come under.





## Introduction

**This checklist highlights 12 steps you can take now to prepare for the General Data Protection Regulation (GDPR) which will apply from 25 May 2018.**

Many of the GDPR's main concepts and principles are much the same as those in the current Data Protection Act (DPA), so if you are complying properly with the current law then most of your approach to compliance will remain valid under the GDPR and can be the starting point to build from. However, there are new elements and significant enhancements, so you will have to do some things for the first time and some things differently.

It is important to use this checklist and other Information Commissioner's Office (ICO) resources to work out the main differences between the current law and the GDPR. Over the next few months the ICO will set out its plans to produce new guidance and other tools to assist preparation. The Article 29 Working Party will also be producing guidance at European level. The ICO will also be working closely with trade associations and bodies representing the various sectors – you should also work closely with these bodies to share knowledge about implementation in your sector.

It is essential to start planning your approach to GDPR compliance as early as you can and to gain 'buy in' from key people in your organisation. You may need, for example, to put new procedures in place to deal with the GDPR's new transparency and individuals' rights provisions. In a large or complex business this could have significant budgetary, IT, personnel, governance and communications implications.

The GDPR places greater emphasis on the documentation that data controllers must keep to demonstrate their accountability. Compliance with all the areas listed in this document will require organisations to review their approach to governance and how they manage data protection as a corporate issue. One aspect of this might be to review the contracts and other arrangements you have in place when sharing data with other organisations.

Note that some parts of the GDPR will have more of an impact on some organisations than on others (for example the provisions relating to profiling or children's data), so it would be useful to map out which parts of the GDPR will have the greatest impact on your business model and give those areas due prominence in your planning process.

# 1

## Awareness

You should make sure that decision makers and key people in your organisation are aware that the law is changing to the GDPR. They need to appreciate the impact this is likely to have and identify areas that could cause compliance problems under the GDPR. It would be useful to start by looking at your organisation's risk register, if you have one.

Implementing the GDPR could have significant resource implications, especially for larger and more complex organisations. You should particularly use the first part of the GDPR's two-year lead-in period to raise awareness of the changes that are coming. You may find compliance difficult if you leave your preparations until the last minute.

# 2

## Information you hold

You should document what personal data you hold, where it came from and who you share it with. You may need to organise an information audit, across the organisation, or within particular business areas.

The GDPR updates rights for a networked world. For example, if you have inaccurate personal data and have shared this with another organisation, you will have to tell the other organisation about the inaccuracy so it can correct its own records. You won't be able to do this unless you know what personal data you hold, where it came from and who you share it with. You should document this. Doing this will also help you to comply with the GDPR's accountability principle, which requires organisations to be able to show how they comply with the data protection principles, for example by having effective policies and procedures in place.

# 3

## Communicating privacy information

You should review your current privacy notices and put a plan in place for making any necessary changes in time for GDPR implementation.

When you collect personal data you currently have to give people certain information, such as your identity and how you intend to use their information. This is usually done through a privacy notice. Under the GDPR there are some additional things you will have to tell people. For example, you will need to explain your legal basis for processing the data,

your data retention periods and that individuals have a right to complain to the ICO if they think there is a problem with the way you are handling their data. Note that the GDPR requires the information to be provided in concise, easy to understand and clear language.

The ICO's [Privacy notices code of practice](#) reflects the new requirements of the GDPR.

## 4 Individuals' rights

You should check your procedures to ensure they cover all the rights individuals have, including how you would delete personal data or provide data electronically and in a commonly used format.

The main rights for individuals under the GDPR will be:

- subject access,
- to have inaccuracies corrected,
- to have information erased,
- to prevent direct marketing,
- to prevent automated decision-making and profiling, and
- data portability.

On the whole, the rights individuals will enjoy under the GDPR are the same as those under the DPA but with some significant enhancements. If you are geared up to give individuals their rights now, then the transition to the GDPR should be relatively easy. This is a good time to check your procedures and to work out how you would react if someone asks to have their personal data deleted, for example. Would your systems help you to locate and delete the data? Who will make the decisions about deletion?

The right to data portability is new. This is an enhanced form of subject access where you have to provide the data electronically and in a commonly used format. Many organisations will already provide the data in this way, but if you use paper print-outs or an unusual electronic format, now is a good time to revise your procedures and make any necessary changes.

## 5

### Subject access requests

You should update your procedures and plan how you will handle requests within the new timescales and provide any additional information.

The rules for dealing with subject access requests will change under the GDPR. In most cases you will not be able to charge for complying with a request and normally you will have just a month to comply, rather than the current 40 days. There will be different grounds for refusing to comply with subject access request – manifestly unfounded or excessive requests can be charged for or refused. If you want to refuse a request, you will need to have policies and procedures in place to demonstrate why the request meets these criteria.

You will also need to provide some additional information to people making requests, such as your data retention periods and the right to have inaccurate data corrected. If your organisation handles a large number of access requests, the impact of the changes could be considerable so the logistical implications of having to deal with requests more quickly and provide additional information will need thinking through carefully. It could ultimately save your organisation a great deal of administrative cost if you can develop systems that allow people to access their information easily online. Organisations should consider conducting a cost/benefit analysis of providing online access.

## 6

### Legal basis for processing personal data

You should look at the various types of data processing you carry out, identify your legal basis for carrying it out and document it.

Many organisations will not have thought about their legal basis for processing personal data. Under the current law this does not have many practical implications. However, this will be different under the GDPR because some individuals' rights will be modified depending on your legal basis for processing their personal data. The most obvious example is that people will have a stronger right to have their data deleted where you use consent as your legal basis for processing.

You will also have to explain your legal basis for processing personal data in your privacy notice and when you answer a subject access request. The legal bases in the GDPR are broadly the same as those in the DPA so it should be possible to look at the various types of data processing you

carry out and to identify your legal basis for doing so. Again, you should document this in order to help you comply with the GDPR's 'accountability' requirements.

## 7

## Consent

You should review how you are seeking, obtaining and recording consent and whether you need to make any changes.

Like the DPA, the GDPR has references to both 'consent' and 'explicit consent'. The difference between the two is not clear given that both forms of consent have to be freely given, specific, informed and unambiguous. Consent also has to be a positive indication of agreement to personal data being processed – it cannot be inferred from silence, pre-ticked boxes or inactivity. If you rely on individuals' consent to process their data, make sure it will meet the standards required by the GDPR. If not, alter your consent mechanisms or find an alternative to consent. Note that consent has to be verifiable and that individuals generally have stronger rights where you rely on consent to process their data.

The GDPR is clear that controllers must be able to demonstrate that consent was given. You should therefore review the systems you have for recording consent to ensure you have an effective audit trail.

## 8

## Children

You should start thinking now about putting systems in place to verify individuals' ages and to gather parental or guardian consent for the data processing activity.

For the first time, the GDPR will bring in special protection for children's personal data, particularly in the context of commercial internet services such as social networking. In short, if your organisation collects information about children – in the UK this will probably be defined as anyone under 13 – then you will need a parent or guardian's consent in order to process their personal data lawfully. This could have significant implications if your organisation aims services at children and collects their personal data. Remember that consent has to be verifiable and that when collecting children's data your privacy notice must be written in language that children will understand.

## 9

## Data breaches

You should make sure you have the right procedures in place to detect, report and investigate a personal data breach.

Some organisations are already required to notify the ICO (and possibly some other bodies) when they suffer a personal data breach. However, the GDPR will bring in a breach notification duty across the board. This will be new to many organisations. Not all breaches will have to be notified to the ICO – only ones where the individual is likely to suffer some form of damage, such as through identity theft or a confidentiality breach.

You should start now to make sure you have the right procedures in place to detect, report and investigate a personal data breach. This could involve assessing the types of data you hold and documenting which ones would fall within the notification requirement if there was a breach. In some cases you will have to notify the individuals whose data has been subject to the breach directly, for example where the breach might leave them open to financial loss. Larger organisations will need to develop policies and procedures for managing data breaches – whether at a central or local level. Note that a failure to report a breach when required to do so could result in a fine, as well as a fine for the breach itself.

## 10

## Data Protection by Design and Data Protection Impact Assessments

You should familiarise yourself now with the [guidance the ICO has produced on Privacy Impact Assessments \(PIAs\)](#) and work out how to implement them in your organisation. This guidance shows how PIAs can link to other organisational processes such as risk management and project management. You should start to assess the situations where it will be necessary to conduct a DPIA. Who will do it? Who else needs to be involved? Will the process be run centrally or locally?

It has always been good practice to adopt a privacy by design approach and to carry out a privacy impact assessment as part of this. A privacy by design and data minimisation approach has always been an implicit requirement of the data protection principles. However, the GDPR will make this an express legal requirement.

Note that you do not always have to carry out a PIA – a PIA is required in high-risk situations, for example where a new technology is being deployed or where a profiling operation is likely to significantly affect individuals. Note that where a PIA (or DPIA as the GDPR terms it) indicates high risk data processing, you will be required to consult the ICO to seek its opinion as to whether the processing operation complies with the GDPR.

11

## Data Protection Officers

You should designate a Data Protection Officer, if required, or someone to take responsibility for data protection compliance and assess where this role will sit within your organisation's structure and governance arrangements.

The GDPR will require some organisations to designate a Data Protection Officer (DPO), for example public authorities or ones whose activities involve the regular and systematic monitoring of data subjects on a large scale. The important thing is to make sure that someone in your organisation, or an external data protection advisor, takes proper responsibility for your data protection compliance and has the knowledge, support and authority to do so effectively. Therefore you should consider now whether you will be required to designate a DPO and, if so, to assess whether your current approach to data protection compliance will meet the GDPR's requirements.

12

## International

If your organisation operates internationally, you should determine which data protection supervisory authority you come under.

The GDPR contains quite complex arrangements for working out which data protection supervisory authority takes the lead when investigating a complaint with an international aspect, for example where a data processing operation affects people in a number of Member States. Put simply, the lead authority is determined according to where your organisation has its main administration or where decisions about data processing are made. In a traditional headquarters (branches model), this is easy to determine. It is more difficult for complex, multi-site companies where decisions about different processing activities are taken in different places. In case of uncertainty over which supervisory authority is the lead



for your organisation, it would be helpful for you to map out where your organisation makes its most significant decisions about data processing. This will help to determine your 'main establishment' and therefore your lead supervisory authority.

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## Governance Committee

**Date:** 5<sup>th</sup> December 2017

**Subject:** Request appoint a Governance Sub-committee to consider applications for Dispensations – Newcastle International Airport Limited Board

**Report of:** Monitoring Officer

### Executive Summary

In accordance with paragraph 27 of the Committee's Terms of Reference, the Committee is requested to appoint a Governance Sub-committee for the purposes of:

- (1) considering applications for Dispensation received from the following Councilors in relation to their registerable personal interests as Directors of the Newcastle International Airport Limited:
  - a Councillor Simon Henig, Leader of Durham County Council
  - b Councillor Iain Malcolm, Leader of South Tyneside Council

and

- (2) if deemed fit, to grant dispensations under Section 33 of the Localism Act 2011 to these members of the NECA Leadership Board who are also members of the Newcastle International Airport Limited.

### Recommendations

The Governance Committee is recommended to:

1. to appoint a Governance Sub-committee for the purposes of:

- (1) considering applications for Dispensation received from the following Councilors in relation to their registerable personal interests as Directors of the Newcastle International Airport Limited from
  - a Councillor Simon Henig, Leader of Durham County Council
  - b Councillor Iain Malcolm, Leader of South Tyneside Council

and

## **Governance Committee**

(2) if deemed fit, to grant dispensations under Section 33 of the Localism Act 2011 to these members of the NECA Leadership Board who are also members of the Newcastle International Airport Limited.

2. authorise the Monitoring Officer to grant dispensations to the Members of the Leadership Board who are also Directors of the Newcastle International Airport Limited where such requests are not received in time for consideration by the Governance Sub-committee.

### **1. Background Information**

#### *Authority*

1.1 In accordance with paragraph 27 of the Committee's Terms of Reference, as set out in the the North East Combined Authority's current Constitution (June 2017), the Committee is requested to appoint a Governance Sub-committee for the purposes considering application and grant dispensations under Section 33 of the Localism Act 2011). The Committee has authority under paragraph 20 of its Terms of Reference to grant dispensations.

1.2 At its meeting on the 27 February 2015, the Governance Committee considered a paper (first presented on 9 December 2014) in relation to the granting of dispensations in favour of members of the Leadership Board who are also members of the Airport Board. That Committee also granted delegated authority to the Monitoring Officer to grant dispensations when requests are not received in time for consideration by the Committee.

#### *Context*

1.3 Members of the Leadership Board and others nominated by the Constituent Authorities are appointed to the various Committees and Sub-Committees of the Authority. The Members of the Leadership Board and the Members of the Constituent Authorities are required to register their registerable and non-registerable personal interests under the NECA's Code of Conduct for Members. Those interests may relate to any item of business considered at a NECA meeting and may mean that a Member is required to declare an interest for a particular item of business and leave the meeting.

1.4 The Localism Act 2011, introduced a more generous regime of dispensations to that which existed under the previous arrangements. Such dispensations enable a Member to participate in a meeting dealing with a matter relating to a Member's registerable interest provided that an appropriate dispensation is in place. Where such a matter arises Members may now be given a dispensation either to speak

## **Governance Committee**

but not vote, or to speak and vote, on several grounds, including that it would be in the interests of local people to allow a dispensation, or even that it is simply “appropriate to grant a dispensation”. Dispensations may last for up to four years.

- 1.5 There are three Members of the Leadership Board who are also Directors of Newcastle International Airport Limited (NIAL). Each of these members has had the benefit of a dispensation in the past and two of these seek new dispensations.

The dispensation will allow the members to participate in considerations of Items of business for consideration by the Leadership Board may arise that relate to the NIAL. Members of the Leadership Board who are also Directors of the NIAL have sought dispensations from the requirements of the Code of Conduct, under Section 33(2)(c) and (e) of the Localism Act 2011. The dispensation sought is to enable the Member to remain in the meeting during the consideration of the item and participate on the discussion but not to vote on the item. If a dispensation is granted it will enable the Member to speak on any item of business considered at the Leadership Board relating to NIAL.

- 1.6 A dispensation can be granted in the following circumstances –

- (1) So many Members of the decision-making body have interests that require them not to take part in a matter that it is likely to “impede the transaction of the business”. Effectively this means the decision-making body would be inquorate as a result and could not proceed with business;
- (2) Without a dispensation, no member of the Leadership Board would be able to participate on the matter;
- (3) Without the dispensation, the representation of different political groups on the body transacting the business would be likely to be upset with the effect of altering the outcome of any vote on the matter;
- (4) In light of the above the Authority believes that the granting of the dispensation is in the interests of persons living in its area and that it is otherwise appropriate to grant a dispensation.

- 1.7 The dispensation can be granted for up to a period of 4 years, however it has been previous practice adopted by the Committee Members may wish to grant the for a period of 2 years. The period can be extended if considered appropriate on expiry.

- 1.8 The dispensations granted by the committee at its meeting on the 27 February 2015 expired on 26 February 2017.

- 1.9 It is anticipated that a request for dispensation is anticipated from the new leader of Sunderland City Council once they take up their role on the NECA leadership

## **Governance Committee**

Board and NAIL Board following the outcome of the anticipated leadership election process.

1.10 The Committee should note that the Code of Conduct for Members includes pre-existing dispensations in relation to the matters listed below but these are not areas that are likely to be considered by the Leadership Board or Members of the Constituent Authorities save perhaps for indemnities to Members and the setting of the annual precept. The pre-existing dispensations are:-

- Housing
- School meals or transport
- Statutory sick pay
- An allowance, payment or indemnity given to Members
- Any ceremonial honour given to Members and
- Setting the Council Tax or precept

## **2 Proposals**

2.1 That the Committee:

1. to appoint a Governance Sub-committee for the purposes of:
  - (1) considering applications for Dispensation received from the following in relation to their registerable personal interests as Directors of the Newcastle International Airport Limited from
    - a Councillor Simon Henig, Leader of Durham County Council
    - b Councillor Iain Malcolm, Leader of South Tyneside Counciland
  - (2) if deemed fit, to grant dispensations under Section 33 of the Localism Act 2011 to those three members of the NECA Leadership Board who are also members of the Newcastle International Airport Limited.
2. authorise the Monitoring Officer to grant dispensations to the Members of the Leadership Board who are also Directors of the Newcastle International Airport Limited where such requests are not received in time for consideration by the Governance Sub-committee.

## **Governance Committee**

### **3. Reasons for the Proposals**

3.1 The decision will:

- (1) in relation to the appointment of the sub-committee, support the proper functioning of Leadership Board and the authority's governance and respect for the statutory requirements.
- (2) In respect of the confirmation of the Monitoring Officer's authority, provide continued certainty and clarity and the ability to support the effective functioning of the Authority's decision making structures..

### **4. Next Steps and Timetable for Implementation**

4.1 If the dispensations are granted by the Sub-Committee then a certificate of dispensation will be forwarded to the Members concerned by the Monitoring Officer

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

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

### **6. Financial and Other Resources Implications**

6.1 There are no specific financial implications arising in relation to this report

### **7. Legal Implications**

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

### **8. Key Risks**

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

### **9. Equality and Diversity**

9.1 There are no equality or diversity implications directly arising from this report.

## **Governance Committee**

### **10. Crime and Disorder**

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

### **11 Consultation/Engagement**

11.1 The Chair of the Governance Committee has been consulted about the need to convene a Governance Sub- Committee meeting. The Monitoring Officer has consulted internally about the need to issue a short term dispensation to cover the December meeting of the Leadership Board and concluded that this was unnecessary as no NIAL related issues appeared on the Forward Plan for that meeting.

### **12. Other Impact of the Proposals**

12.1 None

### **13. Appendices**

13.1 Appendix 1: Dispensation requests from each of:

- Councillor Simon Henig, Leader of Durham County Council
- Councillor Iain Malcolm, Leader of South Tyneside Council

### **14. Background Papers**

14.1 Governance Committee paper "Request for Dispensation" dated 9th December 2014, considered by that committee on 27 February 2015

### **15. Contact Officers**

15.1 Peter Judge, NECA Monitoring Officer E-mail [peter.judge@northeastca.gov.uk](mailto:peter.judge@northeastca.gov.uk)  
Tel: 07342 069 37

### **16. Sign off**

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



## **Governance Committee**

### **17. Glossary**

Authority – North East Combined Authority

NECA – North East Combined Authority

NIAL - Newcastle International Airport Limited

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Contact: Cllr Simon Henig  
Direct Tel: 03000 268 820  
Fax: 0191 383 3662  
email: [simon.henig@durham.gov.uk](mailto:simon.henig@durham.gov.uk)



Mr Peter Judge  
Monitoring Officer  
North East Combined Authority

[peter.judge@northeastca.gov.uk](mailto:peter.judge@northeastca.gov.uk)

16 October 2017

Dear Mr Judge

### **Application to the Governance Committee for a Dispensation**

I am the Leader of Durham County Council (the "Council") and the Council's representative on the Leadership Board of the North East Combined Authority ("NECA"). I am also a Director of Newcastle International Airport Limited ("NIAL").

As a result of my role as a Director of NIAL, when the Leadership Board meets to consider an item of business that relates to the NIAL, I must declare my interest in that item and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting, in the absence of my substitute member being available, may lead to the meeting being inquorate and, therefore, unable to proceed with that business.

I have been previously granted a dispensation under section 33(2)(c) and (e) of the Localism Act 2011 to enable me to remain in the meeting during the consideration of such an item of business. The dispensation has expired and I would like to apply for renewal.

I therefore request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011 to enable me to remain in the meeting during the consideration of such an item of business. This will enable relevant business affecting the NIAL to proceed however, I am not seeking a dispensation to enable me to vote on such business to avoid assertions that any improper influence over a decision has arisen. The grant of a dispensation is appropriate and in the interests of persons living in the area of the NECA as it will enable the meeting to continue to progress the business referred for decision efficiently.

Yours sincerely

A handwritten signature in black ink, appearing to read "Simon Henig".

Councillor Simon Henig  
Leader of the Council

### **Leader of the Council**

Durham County Council, County Hall, Durham DH1 5UL  
Customer Services 03000 26 0000 Minicom 0191 383 3802



Dear Mr Judge,

**Re: Application to the Governance Committee for a Dispensation**

I am the Leader of South Tyneside Council (the "Council") and the Council's representative on the Leadership Board of the North East Combined Authority ("NECA"). I am also a Director of Newcastle International Airport Limited ("NIAL").


As a result of my role as a Director of NIAL, when the Leadership Board meets to consider an item of business that relates to the NIAL, I must declare my interest in that item and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting, in the absence of my substitute member being available, may lead to the meeting being inquorate and, therefore, unable to proceed with that business.

I have been previously granted a dispensation under section 33(2)(c) and (e) of the Localism Act 2011 to enable me to remain in the meeting during the consideration of such an item of business. The dispensation has expired and I would like to apply for renewal.

I therefore request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011 to enable me to remain in the meeting during the consideration of such an item of business. This will enable relevant business affecting the NIAL to proceed however, I am not seeking a dispensation to enable me to vote on such business to avoid assertions that any improper influence over a decision has arisen. The grant of a dispensation is appropriate and in the interests of persons living in the area of the NECA as it will enable the meeting to continue to progress the business referred for decision efficiently.

Yours sincerely,

Name and designation...Cllr Iain Malcolm, Leader of South Tyneside Council.

Signature 

Date 16 October 2017

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## **Governance Committee**

**Date: 5 December 2017**

**Subject: Annual Audit Letter 2016/17**

**Report of: External Auditor**

### **Executive Summary**

The purpose of this report is to present the Annual Audit Letter for 2016/17.

### **Recommendations**

The Governance Committee is recommended to receive the report for information.

## **Governance Committee**

### **1. Background Information**

- 1.1 The purpose of this report is to present the Annual Audit Letter for 2016/17, which is the final reporting requirement in relation to the audit of the 2016/17 accounts.

### **2 Proposals**

- 2.1 The Annual Audit Letter published as Appendix 1 with this report sets out the findings and conclusion of the audit of the North East Combined Authority accounts for 2016/17.

### **3. Reasons for the Proposals**

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

### **4. Next Steps and Timetable for Implementation**

- 4.1 NECA finance officers are engaging with the auditors in relation to the planning for the 2017/18 accounts closedown, in order to meet the deadlines involved in Faster Close.

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

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

### **6. Financial and Other Resources Implications**

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

### **7. Legal Implications**

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

### **8. Key Risks**

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

### **9. Equality and Diversity**

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



## **Governance Committee**

### **10. Crime and Disorder**

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

### **11. Consultation/Engagement**

11.1 The annual accounts were subject to a public inspection period from 26 June 2017 – 4 August 2017, with no objections raised or enquiries made.

### **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 – Annual Audit Letter 2016/17

### **14. Background Papers**

14.1 None.

### **15. Contact Officers**

15.1 Katy Laing, Principal Accountant, [katherine.laing@newcastle.gov.uk](mailto:katherine.laing@newcastle.gov.uk),  
0191 211 6065

### **16. Sign off**

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

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# Annual Audit Letter

North East Combined Authority



For the year ended 31 March 2017



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

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

# Executive summary

## Purpose of this report

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the North East Combined Authority (NECA) for the year ended 31 March 2017. Although this letter is addressed to NECA, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Area of work	Summary
Financial statements opinion	On 29 September 2017 we issued our opinion that the financial statements gave a true and fair view of NECA's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	On 29 September 2017 we issued our opinion that the Narrative Report published with the financial statements, was consistent with those financial statements.
Value for Money conclusion	On 29 September 2017 we issued our conclusion that NECA had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts	We reported to the NAO, in line with their instructions, on 29 September 2017.
Matters that we report by exception	We did not identify any matters to report in relation to: <ul style="list-style-type: none"><li>• whether the Annual Governance Statement was in line with our understanding of NECA and the requirements of the Delivering Good Governance in Local Government Framework 2016;</li><li>• reports in the public interest or written recommendations made under s24 of the 2014 Act; or</li><li>• exercise of other powers under the 2014 Act.</li></ul>

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified the closure of the audit on 29 September 2017.

# Audit of the financial statements

Financial statements opinion

Unqualified

## The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to NECA and whether they give a true and fair view of NECA's financial position as at 31 March 2017 and of its financial performance for the year then ended.

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

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

## Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

<b>Financial statement materiality</b>	Group £5.770 million. NECA £5.121 million.
<b>Specific materiality</b>	We have applied a lower level of materiality to the following item of account: <ul style="list-style-type: none"> <li>• Related Party Transactions.</li> </ul>
<b>Trivial threshold</b>	Group £173,000 NECA £154,000

### Our response to significant risks

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

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

Significant risk	How we addressed the risk	Audit conclusion
<p><b>Property, Plant and Equipment Valuation (relevant to single entity and group accounts)</b></p> <p>Our previous audit work identified the lack of a detailed asset register to fully support the land &amp; buildings and infrastructure assets in the Authority's balance sheet.</p>	<p>Our testing strategy included:</p> <ul style="list-style-type: none"> <li>• reviewing the Authority's arrangements for ensuring that all assets in the asset register were accounted for in the financial statements and vice versa; and</li> <li>• testing a sample of assets and obtaining suitable evidence that these assets existed at the balance sheet date and that the Authority held the rights to the asset.</li> </ul>	<p>Our work identified that asset categories for PPE were incorrect in that land and buildings should have been classed as infrastructure as they were intrinsically part of the old Tyne Tunnel. This issue has been corrected and the asset register updated accordingly.</p>

#### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our 2016/17 audit did not identify any significant deficiencies to report.

#### Significant matters discussed with management

Last year we reported that we were concerned at the lack of staffing support allocated to the Principal Accountant to help produce both the draft and audited accounts whilst also being available to assist in responding to audit queries. This issue is still ongoing and will become even more important for next year as the deadlines for the publication of both the draft and audited accounts will come forward to 31 May 2018 and 31 July 2018 respectively. We have been informed that a replacement has recently been appointed to cover the maternity leave of the current Principal Accountant however we feel further staffing support is still required.



# Value for Money conclusion

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Value for Money conclusion

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Unqualified

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## Summary of our work

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

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

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

## Significant Value for Money risks

As part of our continuous planning processes, we carry out work to identify whether or not a risk to our VFM conclusion exists. We did not identify any significant audit risks at the planning stage of our audit, and as such did not report any in our Audit Strategy Memorandum. We kept this under review throughout our audit and were satisfied that there were no significant audit risks apparent in respect of VFM.

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The North East Leadership Board (NELB) is made up of the Leaders of the seven constituent bodies. The NELB is supplemented by elected members who serve on a number of committees along with non-executives.</p> <p>There is a very experienced senior officer team in post at NECA led by Helen Golightly, the Interim Head of Paid Service who was appointed in September 2016.</p> <p>NECA has an update to date Constitution (June 2017) which is available on their website.</p> <p>Risk management arrangements along with an up to date risk register is in place. A risk update is reported regularly to Governance Committee, who provide the necessary challenge.</p> <p>No indicators of inappropriate governance arrangements.</p> <p>An annual governance statement is prepared, reviewed and approved before being included in the financial statements.</p>	Yes
Sustainable resource deployment	<p>Very experienced officer team in place Financial and performance reports demonstrate a history of achieving financial targets.</p> <p>The 2017/18 revenue budget and capital programme was approved by the NELB on 17 January 2017.</p> <p>Arrangements in place for the Financial Plan to be updated as appropriate.</p> <p>2016-17 Outturn report to Governance Committee on 4 July 2017 identified an underspend of £0.570 million at the year-end.</p> <p>Relevant HR policies and procedures in place</p>	Yes
Working with partners and other third parties	<p>NECA work very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities.</p> <p>The NELEP board includes 18 representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven NECA councils are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB. The Combined Authority provides the formal accountability arrangements for the enterprise partnership.</p> <p>A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008.</p>	Yes

# Other reporting responsibilities

<b>Exercise of statutory reporting powers</b>	<b>No matters to report</b>
<b>Annual Governance Statement</b>	<b>No matters to report</b>
<b>Whole of Government Accounts</b>	<b>Submission to NAO completed</b>
<b>Other information published alongside the financial statements</b>	<b>Consistent</b>

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

## **Matters which we report by exception**

The 2014 Act provides us with specific reporting powers where matters come to our attention that require reporting to parties other than NECA.

We have the power to:

- report in the public interest; and
- make statutory recommendations to NECA, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector.

We did not receive any such objections or questions.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of NECA.

We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to NECA in relation to the Annual Governance Statement.

## **Other information published alongside the financial statements**

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of NECA. In our opinion, the information in the Narrative Report is consistent with the audited financial statements.

# Our fees

## **Fees for work as the Commissioner's appointed auditor**

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Governance Committee in April 2017.

Having completed our work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£24,298	£24,298

We confirm that these fees are in line with the scale fee set by Public Sector Audit Appointments Ltd.

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

# Future challenges

## Financial and operational outlook

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

- Joint working with North East Local Enterprise Partnership (NELEP) on the ten new Enterprise Zone sites which have been approved along with continuing work with NELEP to secure a £120 million North East extension to the JEREMIE access to finance for business fund.
- Seeking to maximise European funding and the replacement of Europe regional funding following Brexit for the North East.

## How we will work with NECA

We will focus our 2017/18 audit on the risks that these challenges present to NECA's financial statements and ability to maintain proper arrangements for securing value for money. We will also share with NECA and appropriate staff relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

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

A key focus in the coming year will be working with officers to ensure a smooth process to an earlier accounts and audit timetable that will take effect in the 2017/18 financial year. This work has already commenced and will continue during the course of the year.

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## North East Combined Authority

### Governance Committee

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**Date:** 5 December 2017

**Subject:** Draft Budget 2018/19 Consultation

**Report of:** Chief Finance Officer

#### **Executive Summary**

The purpose of this report is to seek the views of the Governance Committee on proposals for the setting of the 2018/19 NECA budget, as part of its consultation process. A summary report on the Draft 2018/19 Budget was presented and approved at the Leadership Board on 21 November and this is attached to this report as an appendix.

#### **Recommendations**

It is recommended that the Committee receive the report for information and provide comment for consideration as part of the consultation process.

# North East Combined Authority

## Governance Committee

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### **1 Background Information**

- 1.1 The purpose of this report is to seek the views of the Governance Committee on proposals for the 2018/19 NECA budget, as part of its consultation process. The summary report on the Draft Budget presented to the Leadership Board on 21 November covering all aspects of the NECA budget, is attached as an appendix.

### **2 Proposals**

- 2.1 The budget proposals for 2018/19 as they currently stand for both Transport and non-Transport activity are set out in the report attached as Appendix 1. An update will be provided at the meeting on discussions to date and any new information on funding following the Autumn Statement on 22 November.
- 2.2 The Committee is asked to consider these proposals and provide comments which can be taken into account as part of the consultation process for the 2018/19 budget.

### **3 Next Steps**

- 3.1 The main budget for 2018/19 will be presented to the Leaders Board for agreement on 16 January 2018.

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

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

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

- 5.1 The financial and resource implications are set out in detail in the individual reports contained as an appendix.

### **6 Legal**

- 6.1 The legal implications are set out in the individual report contained as an appendix.



# North East Combined Authority

## Governance Committee

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### **7 Other Considerations**

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

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

#### **7.2 Human Rights**

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

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

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

#### **7.4 Risk Management**

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

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

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

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

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

### **8 Background Documents**

8.1 None.

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

9.1 The transport budget will help support the delivery of Local Transport Plans.

### **10 Appendices**

10.1 Appendix 1: Report to the Leadership Board 21 November 2017 – Draft Budget 2018/19 and Transport Levies

# North East Combined Authority

## Governance Committee

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### 11 Contact Officers

11.1 Katherine Laing, Principal Accountant, Katherine.laing@northeastca.gov.uk,  
0191 338 7428

### 12 Sign off

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

## **Leadership Board**

**Date:** 21 November 2017

**Subject:** Draft Budget 2018/19 and Transport Levies

**Report of:** Head of Paid Service and Chief Finance Officer

### **Executive Summary**

The purpose of this report is to set out the key budget issues, principles and proposals that are likely to be included in the 2018/19 budget report for the North East Combined Authority, which will be presented for consideration by the Leadership Board on the 16<sup>th</sup> January 2018.

### **Recommendations**

The Leadership Board is recommended to:

- i. Receive this report for consideration and comment;
- ii. Agree the budget approach of setting out a detailed revenue budget for 2018/19 as another transitional year, while the future role and responsibilities of NECA are clarified. This will take into account the need to meet the statutory responsibilities of NECA that will continue in 2018/19 as well as the need to achieve savings to help constituent authorities deal with reductions in their transport funding as part of continuing Government austerity measures. Indicative transport budgets will be set out over a three year period, where it is possible to do so;
- iii. Agree the following proposals for the basis of consultation about the NECA 2018/19 Revenue Budget:
  - a. The Transport Budget for Tyne and Wear is indicatively proposed to be set at £61.800m which is a further reduction of £1.240m (1.97%) compared with the budget for 2017/18. The budget savings needed to deliver this are expected to be made in 2018/19 without any significant impact on transport services, through efficiencies and temporary use of Nexus reserves.

## Leadership Board

- b. The indicative Transport Budget and Levy for the Durham County Council area is expected to be £15.690m, which is a small net increase of £0.208m (1.3%). No significant reductions in services are envisaged for 2018/19.
  - c. The indicative Transport Budget and Levy for the Northumberland County Council area is expected to be £6.199m, which is a small net decrease of £0.023m. No significant reductions in services are envisaged for 2018/19.
  - d. The £250k contribution towards the North East LEP, which is required to match fund government grant, is proposed to be continued in 2018/19.
  - e. NECA will need to maintain sufficient capacity to meet its statutory requirements. It is proposed that the level of corporate contributions from the constituent authorities is maintained at £300k.
  - f. The contribution to the Invest North East England team is subject to discussion with constituent councils and the North East LEP. The current council contributions of £140k are proposed to be maintained for 2018/19, as part of an overall budget of at least £461k.
  - g. The North East LEP budget is being prepared to reflect its responsibilities and the estimated available resources for 2018/19. A draft budget has been prepared and more detailed information will be included in the January Leadership Board report.
  - h. NECA will need to set out a balanced budget for 2018/19, maintaining a sufficient but minimal level of reserves to managed risk and will set out a treasury management strategy for borrowing and lending which will comply with the Prudential Code.
- iv. Agree the following in relation to the tolls on the Tyne Tunnels:
- a. Approve the increase in tolls for class 3 vehicles from £3.30 to £3.40 to take effect during February 2018, as set out in section 2.1.17 to 2.1.20, with tolls for class 2 vehicles (cars) being maintained at £1.70;
  - b. Approve the continuation of the 10% discount for permit holders as set out in section 2.1.20;
  - c. Authorise the Monitoring Officer to publish the relevant notices and submit the necessary documentation to the Secretary of State, as prescribed in the River Tyne (Tunnels) (Modification) Order 2011.

## **Leadership Board**

- v. Agree that this report, which has already been circulated to start a two month budget consultation period, be updated to reflect any changes agreed at this Board meeting and be re-circulated as part of the budget consultation.

## Leadership Board

### 1. Background Information

#### Policy Context

- 1.1 The Leadership Board have made clear the importance of a policy led budget, within the context of the national programme of austerity measures, to underpin the delivery of the NECA's policy priorities including its Transport responsibilities and the delivery of the Strategic Economic Plan (SEP).
- 1.2 The capital and revenue resources of NECA and North East LEP will be targeted to achieve the priorities set out in the SEP and the transport levies that NECA will set will help meet the statutory Transport responsibilities of the NECA, which can also contribute to priorities in the SEP.
- 1.3 NECA has agreed three broad policy priority areas:
- Transport
  - Employability and Inclusion
  - Economic Development and Regeneration
- 1.4 In March 2017, North East LEP published its refreshed Strategic Economic Plan for the North East, detailing how it will deliver 100,000 more and better jobs into the North East economy by 2024. This was a refresh of the original SEP published in 2014, which takes into account the changing economic climate and the UK's decision to leave the European Union, reflecting on new evidence relating to the region's economic position and evolving public policy environment.
- 1.5 The revenue budget and capital programme of NECA will contribute to the achievement of these objectives.
- 1.6 Ongoing discussions between the North of Tyne constituent authorities and government regarding a potential devolution agreement for the northern part of the NECA area could have an impact on the scope of responsibilities of NECA next year. The NECA budget for 2018/19 is being prepared on the basis of the assumption that it will be NECA, in the absence of any other legally recognised body, which will be required to set the budget and transport levies for 2018/19 by 15 February 2018, in line with the Transport Levying Bodies regulations.

#### Background information – budget process

- 1.7 Levying Bodies regulations require Transport Authorities to set their budget and levies by 15<sup>th</sup> February preceding the financial year to which they apply. Traditionally, levies for this region have been set in January to ensure that this statutory deadline is met, but also to give constituent councils information about the transport levies as early as possible to enable them to reflect the confirmed figures in their budgets. As well as transport levies, the budget in January will set out any contributions from constituent councils to meeting the non-transport costs of the

## Leadership Board

Authority and will set out information about the capital programme for NECA and how it will be funded.

- 1.8 As the accountable body for the North East LEP, the budget will include information about the funds available to North East LEP and its proposed budget for 2018/19, which will be agreed by the LEP Board. The budget will need to reflect decisions about the level of government grant available to support LEP costs as well as the guidance and resource requirements needed to meet grant conditions.
- 1.9 It is good practice for all organisations to develop a Medium Term Financial Strategy (MTFS) and it would be preferable to develop the 2018/19 budget for NECA in the context of as much information as possible over a three to five year Medium Term Plan period. In recent years the transitional position of NECA itself has not made this possible and this continues to be the case for 2018/19, although areas of the budget such as Nexus are planning across a longer period.
- 1.10 The constitution of NECA requires an early consultation on budget proposals, giving at least two months for the consultation process to be completed. The circulation of this report on the 14<sup>th</sup> November will start the consultation process, which will include consideration of the budget report by the Overview and Scrutiny Committee, Transport North East Committee, the seven constituent councils, consideration by North East LEP and a consultation with the North East England Chamber of Commerce.
- 1.11 The timetable for developing the 2018/19 revenue budget and capital programme is tight, and involves a number of steps for discussion, consultation and development of the budget. Initial technical briefings and discussions on the budget process and timetable have taken place with Chief Executives, Directors of Finance, Economic Directors and Transport Officers and this has resulted in the high level proposals for 2018/19 set out in this report. Further details will be developed and fine-tuned in partnership with North East LEP, councils and delivery organisations over the next few weeks. This additional detailed work and the feedback from consultation will be reflected in a detailed 2018/19 budget report for consideration in January 2018.

## 2. Proposals

### 2.1 Transport Revenue Budgets and Levies for 2018/19

- 2.1.1 The overall total proposed net revenue budget for transport in 2018/19 is currently estimated to be £83.690m, which is an overall reduction of £1.054m (-1.2%) on the current year. Information about the draft budget and the levy for each of the three areas in NECA is summarised in the table overleaf and sets out in more detail in the following sections. Three separate transport levies are required by NECA, because the cost per head of population of delivering transport services varies greatly between Durham, Northumberland and Tyne and Wear due to their very different geographies and demographics.

## Leadership Board

This reflects higher concessionary travel usage (including Metro) in the urban areas of Tyne and Wear and other transport costs e.g. the cross-Tyne ferry as well as pensions and capital financing costs which are not included in the levies in Durham and Northumberland.

Area	Transport Budget and Levy	Change from 2017/18	Levy per Person
	£	£	£/person
Durham	15,690,493	208,069	£30.04
Northumberland	6,199,460	(22,280)	£19.62
Tyne and Wear	61,800,000	(1,240,000)	£54.75
<b>Total</b>	<b>83,689,953</b>	<b>(1,054,211)</b>	

### Durham County Council

2.1.2 The budget and levy for public transport activity in Durham is £15.685m and £15.690m respectively for 2018/19. This compares with a budget of £15.482m for 2017/18. The budget and levy for 2018/19 is summarised in the table below.

	Gross Expenditure £	Gross Income £	Net Expenditure £
Concessionary Fares	11,949,130	(9,500)	11,939,630
Subsidised Bus Services	4,656,971	(1,806,551)	2,850,420
Bus Stations	457,791	(314,211)	143,580
Bus Shelters	31,350	(12,120)	19,230
PT Information	184,440	(95,514)	88,926
Staffing	643,707		643,707
<b>Total Grant</b>	<b>17,923,389</b>	<b>(2,237,896)</b>	<b>15,685,493</b>
Share of NECA Transport Costs	5,000	0	5,000
<b>Transport Levy</b>	<b>17,928,389</b>	<b>(2,237,896)</b>	<b>15,690,493</b>

2.1.3 The net budget for 2018/19 is comparable with 2017/18 with minor changes in relation to an increase in payments for concessionary fares and an estimated 1% pay award.

### Northumberland County Council

2.1.4 The budget and levy for public transport activity in Northumberland is £6.194m and £6.199m respectively for 2018/19. This compares with a budget of £6.222m for 2017/18. The budget and levy for 2018/19 is summarised in the table below.



## Leadership Board

	<b>Gross Expenditure £</b>	<b>Gross Income £</b>	<b>Net Expenditure £</b>
Concessionary Fares	4,734,940	(12,940)	4,722,000
Subsidised Bus Services	1,826,740	(546,340)	1,280,400
Bus Stations	23,000	0	23,000
PT Information	25,000	0	25,000
Staffing	144,060	0	144,060
<b>Total Grant</b>	<b>6,753,740</b>	<b>(559,280)</b>	<b>6,194,460</b>
Share of NECA Transport Costs	5,000	0	5,000
<b>Transport Levy</b>	<b>6,758,740</b>	<b>(559,280)</b>	<b>6,199,460</b>

2.1.5 The net budget for 2018/19 is comparable with 2017/18 with minor changes on staffing due to vacancies and an analysis of time spent on combined authority activities. The budget for Bus Services is unchanged to its current level with no significant investment in the county's bus stations planned for 2018/19. The budgets assume a 1% and that the grant received in respect of Bus Service Operators Grant will remain unchanged.

### Tyne and Wear

2.1.6 Figures for the Tyne and Wear levy have been considered by the Tyne and Wear Transport Sub-Committee and have been prepared on the basis of the potential 2018/19 figures discussed by the Leadership Board when it set the 2017/18 budget at its January 2017 meeting. This involved a proportionate saving for constituent authorities in line with their reduction in spending power (excluding the social care precept increase). In headline terms this would involve a cash saving to constituent councils of £1.240m in 2018/19 and an additional saving of £0.590m in 2019/20, on top of the £2.080m (-3.2%) reduction applied in 2017/18.

2.1.7 The distribution of the levy within Tyne and Wear is based on population, and the amounts levied on each indicial authority will reflect changes in the population as well as the reduction in the overall total. The proposed levy for 2018/19 for each of the Tyne and Wear councils is shown below.

<b>Council</b>	<b>Population (2016 Mid Year Estimates)</b>	<b>2018/19 Proposed Levy</b>	<b>Saving compared to 2017/18</b>
		<b>£</b>	<b>£</b>
Gateshead	201,592	11,037,261	(253,824)
Newcastle	296,478	16,232,316	(220,583)
North Tyneside	203,307	11,131,158	(244,078)
South Tyneside	149,418	8,180,709	(170,984)
Sunderland	277,962	15,218,556	(350,531)
<b>Total</b>	<b>1,128,757</b>	<b>61,800,000</b>	<b>(1,240,000)</b>

## Leadership Board

- 2.1.8 This reduction would bring the overall annual transport levy reduction since 2011 to £11.992m (or 16.3%), which has largely been achieved through efficiency savings and temporary use of reserves, whilst protecting service outcomes to date. This level of saving while protecting service outcomes is a significant achievement, particularly in the light of the cost pressures in respect of concessionary travel, and outcomes in other regions around the country where there have been some significant cuts in services.
- 2.1.9 Proposals for the Nexus budget are set out in detail for consideration by the Tyne and Wear Sub-Committee as part of their agenda. Nexus has considered its spending plans for 2018/19, assuming that the budget was being set at a 'stand-still' i.e. if it were to maintain service outcomes whilst absorbing pay and price inflation as well as a further reduction in the grant it receives from the NECA via the levy. Estimates illustrate that a £1.2m reduction in the NECA grant will result in a shortfall in Nexus' budget of £2.0m (central case) and between £1.7m and £3.7m depending on whether a pessimistic or optimistic position on cost pressures is adopted. This approach has been taken due to a number of uncertainties affecting areas of the Nexus budget including the public sector pay cap, Metro fare revenue and the transition from outsourced arrangements for Metro to in-house provision.
- 2.1.10 As at 31 March 2017, Nexus' revenue reserves amounted to £15.5m. This is in addition to its capital reserves, earmarked for investment in capital projects, the most notable amount being the £15.0m earmarked to provide a local contribution for the new Metrocar fleet. Total capital reserves amounted to £28.2m as at 31 March 2017. It is therefore apparent that Nexus has options to cushion the impact of any grant reductions from the NECA during 2018/19 and possibly 2019/20, although Nexus' ability to continue absorbing the kind of cost pressures it has faced in the past diminishes over time.

- 2.1.11 The proposed allocation of the Tyne and Wear Levy between the grant to Nexus and the non-Nexus Tyne and Wear Transport budget is set out in the table below:

	2017/18	2018/19	Change
	£	£	£
Levy budget (non-Nexus)	2,150,000	2,140,000	(10,000)
Grant to Nexus	60,890,000	59,660,000	(1,230,000)
<b>Total Levy</b>	<b>63,040,000</b>	<b>61,800,000</b>	<b>(1,240,000)</b>

- 2.1.12 **Tyne and Wear Levy budget (non-Nexus)**

This budget primarily relates to activity inherited from the former Tyne and Wear ITA along with central transport activity funded by the levy. The vast majority (83%) relates to financing charges on historic debt. Additionally, there is budget provision to pay for support services, other supplies and services, independent members allowances, the external audit fee and a repayment to the Tyne Tunnels for use of reserves in 2013/14 to pay off the pension deficit.

## Leadership Board

- 2.1.13 The Tyne and Wear (former ITA) Transport Revenue reserves are estimated to be £0.298m at the year end as a result of a largely breakeven forecast for the year. The indicative budget for 2018/19 has been prepared on a steady state basis, with some minor reductions in capital financing costs, and is summarised in the table below.

<b>NECA Tyne and Wear Transport Costs</b>	<b>2017/18 Revised Estimate</b>	<b>2018/19 Original Estimate</b>	<b>Change</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Support services	210	220	10
Administration and governance	42	42	-
Capital Financing Costs	1,775	1,752	(23)
Contingency	110	110	-
<b>Total Spending</b>	<b>2,137</b>	<b>2,124</b>	<b>(13)</b>
Use of Transport Reserve	(13)	(16)	3
<b>Contribution from Levy</b>	<b>(2,150)</b>	<b>(2,140)</b>	<b>(10)</b>

### Tyne Tunnels

- 2.1.14 The Tyne Tunnels are accounted for as a ringfenced trading account within the accounts of NECA, meaning that it is wholly funded from the tolls and Tyne Tunnels reserves, with no call on the levy or government funding at all.

2.1.15

The indicative budget for 2018/19 is set out in the table below:	<b>2017/18 Revised Estimate</b>	<b>2018/19 Estimate</b>	<b>Change</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Tolls Income	(26,296)	(25,970)	326
Contract payments to TT2	19,288	19,480	192
Employees	2	33	31
Pensions	54	54	-
Support Services	120	80	(40)
Supplies and Services	35	35	-
Community Fund	10	10	-
Financing Charges	6,996	6,579	(417)
Interest/Other Income	(50)	(50)	-
Repayment from TWITA reserves	(240)	(240)	-
<b>Contribution (to)/from reserves</b>	<b>(81)</b>	<b>11</b>	<b>92</b>

## Leadership Board

Further reductions in the tolls income for 2018/19 are forecast due to the continuing impact of the Silverlink works, which began in August 2016, and has been affecting traffic flows during the current financial year. Traffic levels are forecast to improve during 2019/20.

- 2.1.16 The overall forecast position for 2018/19 is a small deficit of £11k, which would be met from the Tyne Tunnels reserves.

### Tyne Tunnels Tolls – proposed increase

- 2.1.17 The first ‘Concession Toll’ was implemented on 1 January 2014, at a level of £1.60 for cars and £3.20 for HGVs with a 10% discount for permit holders. After that date, the Concession Toll could be adjusted by an amount to reflect actual Retail Price Index (RPI) figures over time. The first such increase was implemented in May 2016 when the toll for cars (class 2 vehicles) was raised to £1.70 and the toll for HGVs (class 3 vehicles) was raised to £3.30. Payments to the concessionaire TT2 automatically rise with RPI inflation and the financial model for the Tunnels assume that tolls will be maintained in real terms, rising periodically in line with RPI increases.
- 2.1.18 Levels of inflation (measured by RPI in accordance with the Order) are now such that an increase in the toll for HGVs is possible and necessary to finance the tunnels in line with the tunnel financing arrangements, but an increase in the toll for cars has not yet been triggered.
- 2.1.19 The proposal is to maintain the tolls at £1.70 for class 2 vehicles and implement an increase to £3.40 for class 3 vehicles, from a proposed implementation date in February 2018, which should enable the necessary process to be followed with the Secretary of State, in line with the Order, following approval by the Leadership Board. This restores the 2:1 ratio between class 2 and class 3 tolls.
- 2.1.20 It is proposed that the toll structure be set or maintained as follows:

Vehicle Class	Toll	Description
1	FREE (no change)	Motorcycles
2	£1.70 (no change)	Motor vehicles (Cars), 2 axles and height 2m or less; Motor vehicles (Cars/Vans) 2 axles and height less than 3m; Articulated motor vehicles with tractor 2m or less and trailer less than 3m
3	£3.40 (£0.10 increase)	Motor vehicle 2 or more axles and height 3m or more

Permits are available for all classifications and subject to 10% discount (no change is proposed to the percentage discount).

## Leadership Board

- 2.1.21 The Order prescribes the process to effect an increase in the tolls at the Tyne Tunnels. Following a decision to increase the tolls, the Authority is required to publish, in at least one local newspaper circulating in the area, a notice substantially in the form set out in the Order. Following publication of the notices, the Authority is required to submit to the Secretary of State:
- a) Details of the decision taken to increase the toll – report and minutes; and
  - b) Evidence that the public has been informed of the decision by notice in the local press.
- 2.1.22 Upon receipt of this information, the Secretary of State has 21 days to make an order revising the tolls, subject to being satisfied that the Authority has correctly adhered to the provisions of the Order. The tolls revision order will come into force 28 days thereafter.
- 2.1.23 Having made such an Order revising the toll, the Order precludes the making of another such tolls revision order within 12 months.

### Regional Transport Team

- 2.1.24 The Regional Transport Team budget is to support NECA and North East LEP as a whole, on a seven authority wide basis. The budget includes salary costs and the items required to ensure a functional central resource across the NECA area including the development of the new NECA Transport Manifesto and Plan and various research projects where value can be added at a NECA level including modelling works, major schemes bid development, the Freight Quality Partnership and NECA based studies.
- 2.1.25 The table below provides a summary of the 2017/18 budget and the forecast expenditure for 2017/18 and then the indicative budget for 2018/19, a more detailed report on which was discussed with the Heads of Transport group at their meeting in September 2017 when they agreed it could be put forward as the proposal for 2018/19.

	<b>2017/18 Budget £</b>	<b>2017/18 Forecast £</b>	<b>2018/19 Proposed Budget £</b>
Staffing	554,550	401,247	516,125
LTP4 Development	55,000	25,000	50,000
Research and Development (including LGF business case assessments)	285,000	450,503	199,000
Miscellaneous (e.g. Travel & meetings)	7,500	10,500	6,000

## Leadership Board

Go Smarter Legacy (e.g. funding bids)	-	-	200,000
	<b>902,050</b>	<b>887,250</b>	<b>971,125</b>
Funded by:			
NECA Integrated Transport Block	(500,000)	(500,000)	(500,000)
LGF Programme Management	(200,000)	(300,000)	(150,000)
Go Smarter Legacy Funding	-	-	(200,000)
Prior Year balances carried forward	(202,050)	(87,250)	(121,125)
	<b>(902,050)</b>	<b>(887,250)</b>	<b>(971,125)</b>

2.1.26 The proposed budget for staffing is based on a full establishment, whereas a significant number of vacancies, including the Head of Regional Transport, have been carried by this team during 2017/18, hence the lower forecast expenditure.

## 2.2 Economic Development and North East LEP capacity

2.2.1 The North East LEP core team is part funded from a Government contribution, which is required to be matched by a contribution from the NECA constituent authorities. It is proposed that the current match funding contribution of £250,000 will continue to be provided in 2018/19, and this is funded by equal contributions of £35,714 from the seven constituent local authorities. Part of the LEP costs of managing the LGF Programme are funded by a top slice from the LGF grant for this purpose, and the LEP budget is being prepared to take into account the latest estimates of this and other external grant funding which supports LEP activity.

2.2.2 In the 2017/18 budget a provision of £25,000 to support the work relating to each of the Skills and the EDRAB portfolios was approved, to be funded from interest receipts. The need to continue this provision will be reviewed taking into account the estimated costs claimed against these budgets, as part of the preparation of the detailed budget report for January.

## 2.3 Inward Investment

2.3.1 In recent years an Inward Investment Team has been established to help co-ordinate Inward Investment Activity across the NECA area. The Team was increased to three people this year, with a gross budget of £460k. This was funded in part from a contribution of £20,000 from each authority and this £140,000 was matched by funding from the LEP, other one off funds and contributions from Enterprise Zone surpluses for activity supporting and promoting Enterprise Zones. Options for the level of activity and funding for 2018/19 are currently being discussed with the constituent councils and the North East LEP and a specific proposal will be included in the January report on detailed budget proposals for 2018/19.

## **Leadership Board**

The two main options are to continue the current operation and funding at c£461k, or to continue the increased proactive activity of the team and to increase the activity of lead generation from London, with the potential to increase the Budget up to £638k. At this time it is proposed that funding continues the current operation at a level of £461k.

### **2.4 NECA Corporate Costs**

2.4.1 The NECA budget for Corporate Costs in 2017/18 was £360,000, which was part funded by council contributions of £300,000, on an equal shares basis of £42,857 per authority, the same as in the previous year. The balance was to be funded by interest on revenue balances and treasury management cash flow activity.

2.4.2 The main areas of cost relate to support costs in relation to the Head of Paid Service, Monitoring Officer and legal costs, Chief Finance Officer and Finance costs, HR Support, Internal and External Audit, support for the Scrutiny function and NECA policy, administration and co-ordination costs and other operating costs. It is important that the NECA is able to fulfil its statutory and corporate functions effectively and that reasonable costs are funded appropriately. This need for adequate corporate capacity has been raised as an issue by Governance Committee.

2.4.3 The corporate costs include activity relating to the accountable body of the LEP and a recent Government report requires additional assurance from the Chief Finance Officer in respect of the Local Growth Fund programme. The Chief Finance Officer is also involved in the national Fair Funding review and there is a need for the Monitoring Officer and legal support to complete transitional corporate activities. The current budget is considered to be at the minimum level necessary. It is proposed that the current council contributions amounting to £300,000 be continued for 2018/19 on an equal shares basis of £42,857 per authority, with interest receipts and a planned use of reserves if this is necessary to fund corporate costs.

2.4.4 Any changes that may be needed as a result of a devolution deal can if necessary be reflected in year end adjustments or an adjustment in the following year.

### **2.5 Fees and Charges**

2.5.1 The main fees and charges that feature as part of the NECA and Nexus budget relate to Metro Fares, the Gold Card for concessionary Travel on Metro and the Tyne Tunnel Tolls.

2.5.2 The Tyne and Wear Transport Sub-Committee will meet on 16 November and a report on Metro Fares is recommending proposals that would freeze Child single ticket prices, Pay as You Go fares and the price of the Gold Card; introduce a

## **Leadership Board**

new cheaper £1 single and £2 capped daily Metro under 19 Pay as You Go ticket; with other fares increased by a minimum of 10p or RPI inflation. The changes would, if approved, be implemented from 2 January 2018 and would maintain the Metro Fare Income budget broadly in line with its current level.

2.5.3 An increase in the Tyne Tunnels tolls for class 3 vehicles (HGVs) is proposed in line with inflation, which is set out in detail in sections 2.1.17 to 2.1.20.

### **2.6 Reserves and Contingencies**

The General Corporate Reserve of NECA was originally set at a relatively low level of £350k for 2014/15. After use of reserves in 2014/15 and 2015/16 this fell to £208k at the end of 2015/16. The general reserve increased slightly during 2016/17 to stand at £283k at 31 March 2017. The required level of the Corporate Reserve will be reassessed based upon a risk analysis taking into account risks and the resources available to meet corporate costs next year and included in the January Budget report. There is a Tyne and Wear transport reserve of £475k and a substantial financing reserve earmarked for the Tyne Tunnels. At this stage reserves are considered to be at an adequate level to manage financial risks.

### **3. Reasons for the Proposals**

3.1 NECA is required to consult on its budget proposals two months before it determines its budget in January 2018.

### **4. Alternative Options Available**

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

### **5. Next Steps and Timetable for Implementation**

5.1 The budget proposals will be consulted upon with constituent councils, Overview and Scrutiny Committee, Governance Committee and with the North East England Chamber of Commerce.

5.2 The draft LEP Budget will be developed and considered by the LEP.

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



## Leadership Board

### 6. Potential Impact on Objectives

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

### 7. Financial and Other Resources Implications

- 7.1 The financial and other resource implications are summarised in this report where they are known. Further details which are developed as part of the consultation process will be identified in the budget report to the 16 January 2018 Leadership Board meeting.

### 8. Legal Implications

- 8.1 The NECA is required by virtue of the Transport Levying Bodies Regulations 1992 to issue the transport levy before the 15 February preceding the commencement of the financial year in respect of which it is issued.

- 8.2 In accordance with the Budget and Policy Framework Rules of Procedure of the NECA Constitution, at least 2 months before the calculations on the revenue budget and transport levy are required to be finalised, the Leadership Board will produce initial outline proposals to the NECA's Overview and Scrutiny Committee who can, after considering the consultation proposals and timetable, make appropriate recommendations to the Leadership Board. This report is being circulated in advance of the meeting in order to meet this two month requirement and will be amended as necessary to reflect any changes agreed at the Leadership Board meeting.

- 8.3 The Leadership Board must approve the final overall budget proposals unanimously.

### 9. Key Risks

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

### 10. Equality and Diversity

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

### 11. Crime and Disorder

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

## Leadership Board

### 12. Consultation/Engagement

12.1 The NECA constitution requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed. It is proposed that the 2018/19 base budget proposals be reported to the Leadership Board on 21 November to start a consultation process, which will include the Overview and Scrutiny Committee, Governance Committee, councils and the North East England Chamber of Commerce.

12.2 The North East LEP will be considering and developing its budget from November to January. Consultation on any specific Transport proposals with service impacts in Durham, Northumberland and Tyne and Wear will be undertaken by individual councils / delivery organisations.

### 13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

### 14. Appendices

14.1 None.

### 15. Background Papers

- Budget 2017/18 and Transport Levies - report to the Leadership Board 17<sup>th</sup> January 2017
- Budget Process and Timetable 2018/19 - report to the Leadership Board 19<sup>th</sup> September 2017
- Revision to Metro and Ferry Fares 2018, report to Transport North East (Tyne and Wear) Sub-Committee 16<sup>th</sup> November 2017

### 16. Contact Officers

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

### 17. Sign off

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

## Leadership Board

### 18. Glossary

**Balances** The total level of surplus funds the Authority has accumulated over the years.

**Budgets** A statement of the Authority's forecast expenditure, that is, net revenue expenditure for the year.

**Enterprise Zones (EZ)** An area in which state incentives such as tax concessions are offered to encourage business investment

**Local Growth Fund (LGF)** Funding provided to local enterprise partnerships or LEPs (partnerships between local authorities and businesses) for projects that benefit the local area and economy.

**North East Local Enterprise Partnership** A business-led, strategic partnership, made up of eighteen representatives from across the private, public and education sectors, responsible for promoting and developing economic growth. Each of the Leaders and the Elected Mayor from our seven local authority areas are members of the North East Local Enterprise Partnership Board.

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## **Governance Committee**

**Date:** 5 December 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 review the outcome of the strategic risk review, as well as highlight any additional strategic risks that may need to be considered for inclusion in the risk register.

## **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 discuss with Government a future North of Tyne area deal.
- 1.2 The risk which monitors the Authority's access to European funding continues to move in a positive direction of travel. The latest commitment figures were discussed at the European Structural and Investment Funding Committee on Tuesday 7 November. Members will receive a verbal update at today's meeting on the latest commitment figures and how the North-East compares to other areas of the UK.
- 1.3 Appendices A and B provide the Committee with details of each risk. Appendix C provides details of the North East Local Enterprise risks as requested by the Committee for this meeting. The Toolkit at Appendix D is used to determine the risk priority for NECA risks.
- 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 risks to the Transport North East (Tyne and Wear) Sub Committee. A link to the latest report is included at Section 14 - Background documents.

### **2. Proposals**

- 2.1 The Combined Authority will continue to develop the strategic risk register to record, monitor and report the strategic risks to the 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 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.

## **Governance Committee**

**6. Finance and Other Resources Implications**

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

**7. Legal Implications**

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

**8. Key Risks**

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

**9. Equalities and Diversity**

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

**10. Crime and Disorder**

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

**11. Consultation /Engagement**

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

**12. Other Impact of the Proposals**

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

**13. Appendices**

Appendix A – ‘Risk at a glance’ shows live risks, risk priority and direction of travel for NECA risks

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

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

Appendix D – Risk Analysis Toolkit determines the risk priority for NECA risks.

**14. Background Documents**

[Nexus risks can be found on the NECA website as part of the – Transport North East \(Tyne and Wear\) Sub-Committee Page 35](#)

The North East Local Enterprise Partnership risk register is also available at <https://www.nelep.co.uk/wp-content/uploads/2017/05/lep-strategic-risk-register-updated-11-september-2017-1.pdf>

## **Governance Committee**

### **15. Contact Officers**

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

### **16. Sign off**

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



**Governance Committee**

**Appendix A**

<b>NECA risks at a glance</b>		
<b>Risk Title &amp; Description</b>	<b>Risk Priority</b>	<b>Direction of Travel</b>

<b>Live Risks</b>		
<p><b>Effectiveness</b> The future effectiveness of the Combined Authority may be adversely impacted by the uncertainty surrounding future membership of the North East Combined Authority.</p>	<b>Red 12</b>	<b>Static</b>
<p><b>European Funding 2014-2021</b> Failure of the Combined Authority to secure the notional funding allocated to the North East through the European Structural and Investment Funding (ESIF) Scheme will jeopardise delivery of the Strategic Economic Plan.</p>	<b>Amber 9</b>	<b>Improving</b>
<p><b>Operational Capacity and Resourcing</b> 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>	<b>Red 12</b>	<b>Static</b>

## Governance Committee

### Appendix B

<p><b><u>Effectiveness</u></b></p> <p>The future effectiveness of the Combined Authority may be adversely impacted by the uncertainty surrounding future membership of the North East Combined Authority.</p>	<p><b><u>Risk Owner</u></b> Head of Paid Service</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Red 12</b></p>
	<p>Likelihood – Medium Impact - Critical</p>
<p><b>Cause:</b></p> <p>The Authority’s decision not to proceed with a Mayoral Combined Authority and the withdrawal of the devolution deal has resulted in the North of Tyne Authorities considering a future North of Tyne area deal.</p>	
<p><b>Impact/Consequence:</b></p> <p>The Authority will need to adjust to operate with a reduced local authorities’ membership and changes to its boundaries.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The Constitution covers the current operating model</li> <li>• The Order provides for the existence of the NECA and specifies its current membership and functions</li> <li>• Formal decision-making committees including Leadership Board, Transport North East, and Transport North East Sub Committee</li> <li>• The LA7 continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Economic Directors, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees</li> <li>• The Strategic Economic Plan has been refreshed by the North East LEP to ensure the economic priorities remain current, reflecting the region’s economic position</li> <li>• A Strategic Partnership Register has been agreed which identifies all partnerships that are entirely or substantially responsible for delivering or managing an outcome for the Combined Authority</li> <li>• The appointment of the Commission for Health and Social Care integration for the North East. Set up by the NHS and NECA to identify opportunities for further collaboration and integration to improve the health and wellbeing of residents and reduce health inequalities across the North East</li> </ul>	
<b><u>Next Steps</u></b>	<b><u>Lead Officer(s)</u></b>
Identify the potential impacts an alternative devolution deal would have on the current governance and working arrangements of NECA.	Helen Golightly (Head of Paid Service)
Understand the legal and decision-making process associated with the potential changes to NECA that a North of the Tyne devolution deal could bring.	Helen Golightly (Head of Paid Service)

## Governance Committee

<p><b><u>European Funding 2014-2021</u></b></p> <p>Failure of the Combined Authority to secure the notional funding allocated to the North East through European Structural and Investment Funding (ESIF) Scheme, will jeopardise delivery of the Strategic Economic Plan.</p>	<p><b><u>Risk Owner</u></b> Head of Paid Service</p> <p><b><u>Risk Score</u></b></p> <p style="background-color: yellow;">Amber 9</p> <p>Likelihood - Medium Impact – Significant</p>
<p><b>Cause:</b> 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 uncertain.</p>	
<p><b>Impact/Consequence:</b> The ability to secure the North East’s full quota of European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• Government has given assurances that key projects supporting economic development will be honoured if they were signed before the Autumn Statement 2016</li> <li>• Government have also set out criteria for further projects to be approved whilst the UK is still within the EU, which allows projects to access further ESI.</li> <li>• 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</li> <li>• The North East LEP and NECA have set up a working group of partners to maximise the access to and retention of ESIF in the North East</li> <li>• The Strategic Economic Plan has been refreshed to ensure its priorities remain current. The Plan is aligned to a European Structural and Investment Fund Strategy, to direct the allocation of European Funding 2014-2021 to grow the North-East Economy</li> </ul>	
<p><b><u>Next Steps</u></b></p> <p>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 £560m Euros. 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.</p>	<p><b><u>Lead Officer(s)</u></b></p> <p>Heather Heward (North East LEP) Programme Manager</p>

## Governance Committee

<p><b><u>Operational Capacity and Resourcing</u></b></p> <p>The Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p>	<p><b><u>Risk Owner</u></b> Head of Paid Service</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Red 12</b></p>
	<p>Likelihood – Medium Impact - Critical</p>
<p><b>Cause:</b> The uncertainty following the withdrawal of the devolution deal has impacted on:</p> <ul style="list-style-type: none"> <li>• The Authority's commitment to secure permanent senior staff and secondment opportunities, resulting in key officer disciplines and resource requirements being at risk</li> <li>• The North of Tyne proposal may result in current officer resources being further reduced</li> </ul>	
<p><b>Impact/Consequence:</b> Without permanent Statutory Officers and recruitment into other officer positions, the Authority will be unable to improve its effectiveness whilst carrying out its statutory responsibilities and core activities.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The appointment of the North East LEP's Executive Director to also undertake the position of Head of Paid Service has further strengthened the partnership arrangements between the North East LEP and the Combined Authority</li> <li>• A dedicated Monitoring Officer has been appointed for 3 days a week on a fixed 12-month contract. A contract with the Chief Finance Officer is in place. Neither appointment should be affected by a separate North of Tyne Devolution Deal.</li> <li>• Partners continue to engage through the formal meetings of the Combined Authority and LA7, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels</li> <li>• Economic Directors Group have put in place a programme of work, looking at the impact of Brexit on the economy, Local Authority finances and the region more widely</li> <li>• The Leadership Board has agreed a budget for 2017/18</li> <li>• As part of the budget process Chief Executives and the Interim Head of Paid Service identified the risks relating to capacity and political commitment</li> </ul>	
<p><b><u>Next Steps</u></b></p>	<p><b><u>Lead Officer(s)</u></b></p>
<p>Develop a plan to address the capacity and resourcing risks within the Combined Authority. In the event of a North of Tyne Devolution Deal future operational capacity and resource risks will also be considered.</p>	<p>Helen Golightly (Head of Paid Service) Paul Woods (Chief Finance Officer)</p>
<p>An exercise is currently underway to review and strengthen NECA's Service Level Agreements (SLAs) to ensure key officer disciplines are formally recognised and continue to support Statutory Officers and the Leadership Board.</p>	<p>Peter Judge (Monitoring Officer)</p>

**Governance Committee**

**Appendix C**

**North East Local Enterprise Partnership - Risk Management**

<p><b><u>Operational Capacity and Resourcing</u></b></p> <p>Medium term operational budget may not be sufficient to maintain the current capacity within the team to lead the delivery of the Strategic Economic Plan (SEP).</p>	<p><b><u>Risk Owner</u></b> Executive Director</p> <hr/> <p><b><u>Risk Score</u></b></p> <p style="background-color: red; color: black; text-align: center;"><b>Red 12</b></p> <p>Likelihood – Medium Impact – Critical</p>
<p><b>Cause:</b> Some funding sources relating to staff resourcing are time-limited and core operational budget levels are not sufficient to allow the Local Enterprise Partnership (LEP) to maintain current capacity levels.</p>	
<p><b>Impact/Consequence:</b> The LEP will need to adjust to operate with a reduced level of staffing resource, limiting and prioritising the scope of work that can be delivered.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• 2017/18 Budget agreed by the LEP Board</li> <li>• Some financial reserves held by the LEP from previous financial years</li> <li>• Potential to call on financial resources relating to Enterprise Zone income if required</li> <li>• On-going monitoring of external funding landscape and actions to secure alternative sources</li> <li>• Medium term draft budget prepared</li> </ul>	
<p><b><u>Next Steps</u></b></p>	<p><b><u>Lead Officer(s)</u></b></p>
<p>Budget management and forecasting on-going</p>	<p>Helen Golightly (Executive Director)</p>
<p>Creation of a new company limited by guarantee sitting alongside the LEP structure will enable the LEP to seek funding from other sources</p>	<p>Helen Golightly (Executive Director)</p>

## Governance Committee

### North East Local Enterprise Partnership - Risk Management

<p><b><u>Increase in the role and scope of LEP's by Government with no new resource to support the additional responsibility(ies)</u></b></p> <p>Government fails to allocate sufficient operational budgets if they increase the role, scope and remit of LEP activity through changes in national policy.</p>	<p><b><u>Risk Owner</u></b> Executive Director</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Red 12</b></p> <p>Likelihood – Medium Impact – Critical</p>
<p><b>Cause:</b> Government are reviewing the role and scope of LEP activity as it introduces new economic development policies. There needs to be financial resources made available to LEPs to carry out any increased responsibility and activity.</p>	
<p><b>Impact/Consequence:</b> The LEP operational budget does not have sufficient head-room to add any financial resource for additional staff. This could lead to current staff resource being spread too thinly, reducing impact and effectiveness and facilitating the delivery of the Strategic Economic Plan.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The LEP is working closely with Government to try to influence policy and its practical implications</li> <li>• LEP Network (national body) also lobbying Government</li> </ul>	
<b><u>Next Steps</u></b>	<b><u>Lead Officer(s)</u></b>
Continue to lobby and influence Government	Helen Golightly (Executive Director)
Consider and respond to any changes as they emerge	Helen Golightly (Executive Director)

## Governance Committee

### North East Local Enterprise Partnership - Risk Management

<p><b><u>Government Capital Funding</u></b></p> <p>Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP.</p>	<p><b><u>Risk Owner</u></b> Executive Director</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Red 12</b></p>
	<p>Likelihood – Medium Impact – Critical</p>
<p><b>Cause:</b> There is uncertainty around the design, function and level of future regional/local strategic capital funding sources from Government.</p>	
<p><b>Impact/Consequence:</b> Without a clear understanding of future potential funding, the delivery of strategic projects related to the SEP post 2021 is at risk.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The refreshed SEP is strongly aligned to key Government policies, such as the Industrial Strategy</li> <li>• The LEP is working with Government to influence policy and funding thinking</li> </ul>	
<p><b><u>Next Steps</u></b></p>	<p><b><u>Lead Officer(s)</u></b></p>
<p>Continue to develop projects (where appropriate) to be ready to 'win' funding as it becomes available.</p>	<p>Helen Golightly (Executive Director)</p>
<p>Continue to work with Government and influence emerging policy thinking.</p>	<p>Helen Golightly (Executive Director)</p>

## Governance Committee

### North East Local Enterprise Partnership - Risk Management

<p><b><u>European Funding</u></b></p> <p>Failure to secure the notional funding previously identified through European Structural and Investment Funding (ESIF) will jeopardise delivery of the Strategic Economic Plan.</p>	<p><b><u>Risk Owner</u></b> Executive Director</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Amber 9</b></p>
	<p>Likelihood – Medium Impact – Significant</p>
<p><b>Cause:</b> 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. The notional €560m may not be secured in the North East.</p>	
<p><b>Impact/Consequence:</b> The ability to secure European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• Government has given assurances that key projects supporting economic development will be honoured if they were signed before the Autumn Statement 2016</li> <li>• Government have also set out criteria for further projects to be approved whilst the UK is still within the European Union, which allows projects to access further ESIF</li> <li>• The North East LEP and North East Combined Authority (NECA) have set up a working group of partners to maximise the access to and retention of ESIF in the North East.</li> <li>• The SEP has been refreshed to ensure its priorities remain current. The Plan is aligned to the ESIF Strategy, to direct the allocation of European Funding 2014-2020 to grow the North-East Economy</li> <li>• The North East has secured circa £151.7m European Regional Development Fund (ERDF), £73.3m European Social Fund (ESF) and £2.7m of European Agricultural Fund for Rural Development (EAFRD) to date out of the total notional allocation of €560m (£437m)</li> </ul>	
<b><u>Next Steps</u></b>	<b><u>Lead Officer(s)</u></b>
<p>The North East LEP and NECA are working with the Government’s Managing Authorities (DCLG, DWP and DEFRA) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of €560m.</p>	<p>Heather Heward (Programme Manager)</p>
<p>A further tranche of European Social Funding of circa £20m is being made available within the North East. The LEP is working closely with DCLG to inform the need for future funding to be released by central Government.</p>	<p>Heather Heward (Programme Manager)</p>



**Governance Committee**

**North East Local Enterprise Partnership - Risk Management**

<p><b><u>North East devolution</u></b></p> <p>The LEP area covers 7 local authorities. The potential for the LEP area to have more than one combined authority may lead to a review of current governance structures and accountable body status.</p>	<p><b><u>Risk Owner</u></b> Executive Director</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Amber 9</b></p>
	<p>Likelihood – Medium Impact - Significant</p>
<p><b>Cause:</b> The North East Combined 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 (NoT) area deal.</p>	
<p><b>Impact/Consequence:</b> If a devolution deal for a Mayoral Combined Authority in the North of Tyne is agreed and implemented, the LEP, NECA and NoT governance structures will need to be reviewed, along with the impact on the accountable body status.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The appointment of the North East LEP’s Executive Director to the position of NECA’s Interim Head of Paid Service has further strengthened the partnership arrangements between the North East LEP and the seven local authorities</li> <li>• Service Level Agreements continue to provide key officer support and services to the LEP team from the local authorities</li> </ul>	
<p><b><u>Next Steps</u></b></p>	<p><b><u>Lead Officer(s)</u></b></p>
<p>Monitor the position and work with all seven local authorities, NECA and NoT in the event of a North of Tyne deal being agreed.</p>	<p>Helen Golightly (Executive Director)</p>

# North East Combined Authority

## Governance Committee

Appendix D

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



## **Governance Committee**

**Date:** 5 December 2017

**Subject:** Internal Audit Progress Report 2017/18

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

### **Executive Summary**

The purpose of this report is to provide Members with:

- Progress against the delivery of the 2017/18 internal audit plan; and
- Information on the implementation of audit recommendations.

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### **Recommendations**

It is recommended that the Committee note the internal audit activity.

## Governance Committee

### 1 Background Information

#### Progress against 2017/18 Audit Plan

- 1.1 Since the last committee 1 audit has been completed, 2 grant claims have been certified and 1 audit has been issued in draft. An audit of information governance, and particularly the process being followed to prepare NECA for changes in Data Protection Regulations (known as GDPR) commenced, however it was felt that Internal Audit time would be best used to provide support to the project board which is in place. This project is covered elsewhere on this agenda. Progress will be reported via the internal audit report to the Committee in April 2018.

Assignment	Level of Assurance
Local Growth Fund Grant (LGF)	Compliant with grant criteria
Local Transport Plan Grant (LTP)	Compliant with grant criteria
Procurement	Moderate
Human Resources	In draft
Information Governance	In progress

Definitions for levels of assurance in reports are included in Appendix 1, and the 2017/18 Audit Plan including the status of each audit is at Appendix 2. Appendix 3 provides detail on audit activity.

#### Implementation of Outstanding Recommendations

- 1.2 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high, medium and value for money recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The current position as regards outstanding recommendation is that 1 is outstanding (detailed below) but this will not be implemented until there is more certainty on NECA's governance arrangements. Recommendations made in 2017/18 are not yet due for implementation however are detailed in appendix 3 of this report.

## Governance Committee

	Audit and Recommendation	Lead Officer/ Implementation due date	Progress update
<b>1</b>	<b>Major Projects</b>		
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.

- 1.3 The current position as regards outstanding recommendations raised in 2015/16 to 2017/18 is detailed below:

	2015/16	2016/17	2017/18
Recommendations issued	10	6	2
Recommendations fully implemented	9 (90%)	6 (100%)	0 (0%)
Recommendations not yet due for implementation	0 (0%)	0 (0%)	2 (100%)
<b>Recommendations not fully implemented and the target date for implementation has been exceeded</b>	<b>1 (10%)</b>	<b>0 (0%)</b>	<b>0 (0%)</b>

## 2 Proposals

- 2.1 The Governance Committee are asked to note the internal audit activity during 2017/18.

## **Governance Committee**

### **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 2017/18 audit work continues and opinions will feed into the Annual Governance Statement for 2017/18 which will be reported to Committee in July 2018.

### **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.

### **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.

## **Governance Committee**

### **13 Appendices**

- 13.1 Appendix 1 - Definitions
- Appendix 2 – 2017/18 internal audit plan
- Appendix 3 – Audit Activity

### **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](mailto:philip.slater@newcastle.gov.uk)  
Tel: 0191 2116511

### **16 Sign off**

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

## **Governance Committee**

### **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.



## Governance Committee

Internal Audit Plan		Appendix 2	
2017/18 Audits	Audit scope and coverage	Status/ Assessment	Governance Committee
Treasury Management	To assess the adequacy and effectiveness of treasury management arrangements, i.e. monitoring cash flows and investment / borrowing activity.	To Start	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.	In draft	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.	In progress	Dec 2017 Revised to April 2018
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.	Complete	December 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.	To Start	April 2018
Contingency	Provision to cover emerging risks, fraud investigation and general advice.	As required	
LGF and LTP Grant Certifications	2 separate grant audits were undertaken using time allocated from the contingency	Complete	December 2017
LGF Quarterly Monitoring returns	To provide assurance to the CFO on returns produced by the NELEP	To Start	April 2018
Governance Committee Support	<ul style="list-style-type: none"> <li>Development and monitor delivery of the Internal Audit Annual Plan.</li> <li>Preparation of reports to and attendance at Governance Committee.</li> <li>Follow up on the implementation of recommendations.</li> <li>Assurance Mapping</li> </ul>	As required	

## Governance Committee

Appendix 3 – Audit Activity since September 2017					
Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
Procurement	Moderate	-	2	1	-
<b>Audit objectives and scope</b>					
<p>The overall objective of the audit was to assess whether the significant risks in relation to procurement are adequately and effectively controlled. This was done through the review of the following objectives:</p> <ul style="list-style-type: none"> <li>• The Combined Authority has an effective set of procurement rules within its Constitution.</li> <li>• Where procurement has taken place this is in line with the Combined Authority's regulations even if the procurement exercise has been undertaken in a constituent authority.</li> <li>• Procedures are in place to achieve value for money and identify efficiency.</li> </ul>					
<b>Internal Audit work undertaken was as follows:</b>					
<ul style="list-style-type: none"> <li>• Discussions with the Principal Accountant and relevant procurement contacts across the Constituent Authorities to ascertain the nature of the system and identify the controls operated by management.</li> <li>• Evaluation of current systems and controls through review and testing of the following: <ul style="list-style-type: none"> <li>○ Comparison of the Procurement Procedure Rules / Contract Standing Orders of the 3 procuring Constituent Authorities.</li> <li>○ 5 contracts procured across the 3 Constituent Authorities to confirm compliance with respective procurement rules.</li> </ul> </li> </ul>					
Assurances	Control weaknesses impacting on assurance and recommendations			Opportunities to enhance efficiency and value for money	
EU Procurement Rules are factored into the Procurement Procedure Rules / Contract Standing Orders of the Constituent Authorities.	<p>1. There are inconsistencies between the procurement procedures of the Constituent Authorities procuring on behalf of the NECA. (Medium)</p> <p><b>Recommendation</b> The Chief Finance Officer should</p> <ul style="list-style-type: none"> <li>• Review the different procurement policies operated by the constituent authorities.</li> <li>• Determine which policy is most acceptable to the NECA.</li> <li>• Revise the Constitution to reflect the agreed approach and thresholds.</li> </ul>			None	

**Governance Committee**

	<ul style="list-style-type: none"> <li>• Develop an appropriate reporting process to ensure that all procurement activity undertaken by the NECA is consolidated and subject to appropriate monitoring.</li> <li>• Communicate these changes to all NECA officers involved in procurements.</li> </ul> <p><b>Implementation date - 31 May 2018</b></p> <p>-----</p> <p>2. There is no central list of officers authorised to engage procurement exercises and commit expenditure on behalf of the NECA. (Medium)</p> <p><b>Recommendation</b></p> <p>The Chief Finance Officer should establish an authorised signatory list of all officers and their positions across the Combined Authority, who are authorised to approve transactions at various limits relating to orders, payments, payroll, expenses, and income. Any officer directly engaging in a procurement exercise should be appropriately authorised as per the authorised signatory list.</p> <p><b>Implementation date - 31 March 2018</b></p>	
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**Date:** 5 December 2017

**Subject:** Annual Governance Statement Assurance Framework 2017/18

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

## **EXECUTIVE SUMMARY**

The purpose of this report is to introduce the assurance framework for the production of the 2017/18 Annual Governance Statement and consider the sources of assurance required to support it.

## **RECOMMENDATION**

It is recommended that the Committee agree the approach to be taken to produce the 2017/18 Annual Governance Statement, including NECA's assurance framework.

## **1. Background Information**

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

- conduct a review of the effectiveness of the system of internal control;
- prepare an annual governance statement; and
- through a relevant committee review and approve the annual governance statement.

### **1.2 2017/18 Annual Governance Statement**

The proposed approach to produce the 2017/18 Statement is based on a framework of assurance from a number of areas and in preparing it, it will be necessary to review evidence from the following sources. This approach complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice:

- Governance Arrangements e.g. the Authority's Constitution
- Statutory Officers - Completion of assurance statements
- Members - Views of Governance Committee
- Internal Audit Activity – including the Head of Internal Audit's annual opinion
- Risk Management - Risk reviews
- Performance Management - Outcomes reported during 2017/18
- Views of the external auditor and other external inspectorates
- Key Partnerships - Completion of assurance statements

## **2. Proposals**

2.1 The Committee are asked to agree the approach to be taken to produce the 2017/18 Annual Governance Statement and supporting assurance framework.

2.2 The Governance Committee will use the assurance framework to review the governance and internal control environment operating during 2017/18 and to challenge assurance being provided on the effective operation of control systems before approving the Annual Governance Statement for inclusion with the final accounts.

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

2.4 The Governance Committee will receive reports throughout 2018/19 to allow them to monitor the implementation of any actions to rectify weaknesses should they be identified during preparation of the 2017/18 Annual Governance Statement.

## **3. Reason for the Proposals**

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

**4. Next Steps and Timetable for Implementation**

Evidence to support the production of the 2017/18 Annual Governance Statement will commence in February/March and a draft 2017/18 Statement will be presented to Committee at its April 2018 meeting.

**5. Potential Impact on Objectives**

No direct impact on objectives.

**6. Finance and Other Resources Implications**

The work to develop the Annual Governance Statement will be carried out by Newcastle City Council's Internal Audit Service under the SLA for 2017/18.

**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, however the production of the Annual Governance Statement will include the overview of the Authority's key risk areas and how they are being managed.

**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 Annual Governance Statement Assurance Framework.

**12. Other Impact on Proposals**

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

**13. Appendices**

There are no appendices.

**14. Background Papers**

The Annual Governance Statement 2016/17.

**15. Contact Officers**

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Telephone - 0191 2116511

**16. Sign off**

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