



North East Combined Authority, Governance Committee

Tuesday 6th December, 2016 at 2.00 pm

Meeting to be held at Jarrow Town Hall, Grange Road, Jarrow NE32 3LE

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AGENDA

	Page No
1. Apologies for absence	
2. Declarations of Interest	
Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer).	
Please also remember to leave the meeting where any personal interest requires this.	
3. Minutes of Previous Meeting held on 13 September 2016	1 - 8
4. Requests for Extensions to Dispensation	9 - 40
5. Draft Budget 2017/2018 Consultation	41 - 68
6. Annual External Audit Letter 2015/16	69 - 92
7. Invitation to opt into the national scheme for auditor appointments	93 - 132
8. Internal Audit Progress Report	133 - 144
9. Strategic Risk and Opportunity Register	145 - 154

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

Tuesday 4 April 2016 at 2.00pm, Sunderland Civic Centre

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

To All Members

North East Combined Authority, Governance Committee

13 September 2016

(2.00 - 4.00 pm)

Meeting held Newcastle City Council, Civic Centre, Barras Bridge, Newcastle upon Tyne
NE1 8QH

Present:

Independent Member: M Scrimshaw (Chair)

Councillors: E Bell (Durham), A Dale (Northumberland), J Foreman (reserve/South Tyneside), H Hughes (Gateshead), and M Talbot (Newcastle).
Substitute members J Foreman (South Tyneside) and P Early (North Tyneside)

Independent Person: S Gardner

14 APOLOGIES FOR ABSENCE

Apologies for absence were received from G Clark (Vice Chair), Councillors G Hobson (South Tyneside), C Johnson (North Tyneside), and H Trueman (Sunderland)

15 DECLARATIONS OF INTEREST

None

16 MINUTES OF PREVIOUS MEETING HELD ON 5 JULY 2016

RESOLVED – That the Minutes of the previous meeting held on 5 July, 2016 circulated on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act, 1985 were agreed as a correct record and signed by the Chair.

Matters Arising

- Councillor A Dale indicated that her comments raised around ensuring there was a distinction shown in the minutes about responsibilities of the LEP and those of the combined authority had not been included. P Woods referred the committee's attention to Minute 37 (iii) from the meeting held on 1 April 2016, where the said member had previously raised the matter, advising that in moving forward, this action would be undertaken. He asked for a copy of Minute 37 (iii) to be sent to the member.

- The Chair requested P Slater to share the trade unions views regarding monitoring of anti-fraud and corruption policy with him once they were received (Minute 10 – Anti-Fraud and Corruption Policy referred).

At this point in the meeting, a member asked for an up to date position on the future of the combined authority and work of this committee, in light of last week's decision on devolution by the Leadership Board. P Woods advised the committee that irrespective of last week's decision not to proceed with public consultation on devolution, the work of this committee and the combined authority would continue; the combined authority having been established prior to the devolution deal. He explained that there would need to be some adjustments and changes made to some of the reports and documents produced for this meeting, as these had been circulated in advance of Leadership Board's decision. He agreed to highlight these changes when the items of business were being discussed.

17 **BUS SERVICES BILL - (NEXUS)**

Submitted: Report by Managing Director, Transport Operations NEXUS (previously circulated and a copy attached to official minutes), which provided an update on the Bus Services Bill; which also included an assessment of opportunities and risks that the Bill presented for the NECA area.

M Scott introduced the report and gave a brief presentation, updating the committee on the Bill's progress.

Durham and Northumberland members commented upon issues and concerns for their respective regions, emphasising the need for further information to fully understand the implications.

In responding to queries raised, M Scott confirmed that the Bill provisions applied to all local transport authorities. Bus franchising legislation improved on QCS legislation, notably the QCS 'public interest test' was no longer referenced. The Act would present opportunities to better integrate the metro, rail and bus services, including simplifying fares. The TNEC report presented at Appendix 1 provided high level objectives on bus services in region but further work on the deliverables was still required. Engagement with bus operators was happening to assess their appetite for using the new partnership provisions in the Bill, alongside existing provisions. M Scott explained the process for moving forward including the next steps.

The Chair thanked M Scott for his presentation asking for the committee to receive regular updates when there was progress to report. He suggested that a copy of the relevant report and minute extract following the TNEC meeting scheduled to be held on 3 November 2016 be circulated to the committee for information.

RESOLVED – That the Committee note the report.

18 **DRAFT BUDGET 2017/18 - PROCESS AND TIMETABLE AND TREASURY MANAGEMENT MID YEAR UPDATE - (NECA)**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which set out the process and timetable for the preparation, consultation and approval of the 2017/18 budget and indicative medium term financial strategy, including consultation with Governance Committee. The report also contained a mid-year update on treasury management activity for the combined authority.

P Woods introduced the report, explaining the challenges the combined authority faced, appraising the committee about the timetable and process. He indicated that in light of the current position, the combined authority would only be preparing a one year budget, which met the minimum statutory requirement. The Leadership Board would be asked at their November meeting to consider how it would recover the costs around devolution, which had been utilised from reserves. As part of the consultation process, the budget proposals would be presented to committee at their December meeting, with results of all the consultation being reported back to the Leadership Board thereafter.

RESOLVED - That the committee receive the report for information.

19 **ANNUAL REPORT AND ACCOUNTS - (NECA)**

Submitted:

- (i) Report by Chief Finance Officer (circulated on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985
- (ii) Amended page 13 of the Chief Finance Officer's Narrative report 2015/16 and a summary sheet and amended pages to the NECA accounts from the version circulated and published (tabled at the meeting)

P Woods introduced the report, which presented the final, audited 2015/16 accounts for review and approval for submission to the Leadership Board. The accounts were largely complete with the external auditor's report also being available later on the agenda for the committee to review. The committee was talked through the revised statements and notes, which related to the leasehold land associated with the new Tyne Tunnel Crossing construction, valued at £3.672M which was included with NECA's Property, Plant and Equipment figures in error; the lease having expired in 2013/14. The amount was below the Authority's materiality level as set by its external auditors so it had been accounted for by writing off in year rather than by a prior year restatement. The external auditor's report would be updated to reflect the fact that a reportable, though not material adjustment, had been made to the financial statements. Assurances were given that there was no impact on cash or useable reserves as a result of the revisions.

In response to queries raised, P Woods agreed to receive comments from the committee on the accounts up to and including 19 September 2016, verbally reporting them to the Leadership Board on 20 September 2016. The reasoning for including a bad debt provision in the accounts was explained in addition to the

issues on the outstanding loan with an assurance given that it was actively being pursued. He agreed to provide a regular update to the committee on bad debt provision.

At this point in the meeting, the committee agreed to consider the External Auditor's Report before approving the Annual Report and Accounts.

20 **EXTERNAL AUDITOR'S REPORT - (MAZARS)**

Submitted: Report by External Auditor (circulated on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985), which summarised the findings of the year ending 31 March 2016 Audit.

C Waddell introduced the report and confirmed that subject to the satisfactory conclusion of the remaining audit work, which he appraised the committee about, it was anticipated that an unqualified opinion without modification on the statement of accounts would be issued.

In response to a queries raised:

- The committee was advised about the value of the small pieces of land around the Tyne Tunnel that at present had no alternative use but for accounting purposes was valued at £8M.
- Confirmation was provided that in 2015/16 an overall materiality of £4.606M (2% of Group gross revenue expenditure) was determined but was updated when the draft accounts were received and was set at an overall level of £5.956M.
- Work on the Asset Register was expected to start this winter and would be in place next year for closure of 2016/17 accounts.

C Waddell reported that the management representation letter would be sent to the NECA Chief Finance Officer to sign off, with a copy thereafter being circulated to the committee for information.

The Chair thanked the External Auditors for their work on the report.

RESOLVED - That the committee noted the External Auditor's report, which summarised their audit conclusions.

21 **ANNUAL REPORT AND ACCOUNTS - (NECA)**

Members' attention was then drawn back to the Annual Report and Accounts with P Woods asking the committee to recommend them for approval to the Leadership Board.

The Chair requested that the committee's appreciation for the hard work and effort by E Goodman, Senior Accountant and P Woods, Chief Finance Officer in producing the annual report and accounts be recorded.

RESOLVED – That the committee reviewed the Statement of Accounts for 2015-16 and recommended them for approval to the Leadership Board on 20 September 2016, subject to the amendments circulated and verbally highlighted by the Chief

Finance Officer at the meeting. Any comments received by the committee up to and including 19 September 2016 be verbally reported to the Leadership Board.

22 **ANNUAL GOVERNANCE STATEMENT - (NECA)**

Submitted: Report by Audit, Risk and Insurance Service Manager (Newcastle City Council), (previously circulated and a copy attached to official minutes), which provided the final Annual Governance Statement for consideration and approval to include in the accounts.

P Slater introduced the report explaining that before it was signed by the Leader of the Authority and Head of Paid Service, Section 5: Devolution would need to be revised in light of last week's decision by the Leadership Board. The committee agreeing to give devolved authority to the Chair and Chief Finance Officer to sign off the statement.

RESOLVED – That the committee agree the Annual Governance Statement attached at Appendix 1 for inclusion in the annual accounts, subject to Section 5: Devolution being re-worded and approved by the Chair and Chief Finance Officer then be recommended for signature by the Leader of the Authority and Head of Paid Service.

23 **ANTI-FRAUD AND CORRUPTION POLICY – (NECA)**

Submitted: Report by Audit, Risk and Insurance Service Manager (Newcastle City Council) (previously circulated and a copy attached to official minutes), which provided a revised version of the policy following consideration by the committee in June.

The Chair requested that Trade Union views be sought and taken into account.

RESOLVED – That the committee agreed the revised document for inclusion in NECA's Constitution.

24 **STRATEGIC RISKS AND OPPORTUNITIES REGISTER – (NECA)**

Submitted: Report by Audit, Risk and Insurance Service Manager (Newcastle City Council) (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 explaining that the devolution risks had all been changed to red; although following the decision by the Leadership Board the risk level may change and a revised Risk Register would be provided at the December 2016 meeting.

P Woods briefed the committee around the Leadership's Board decision not to proceed with the devolution consultation and the Secretary of State's decision to withdraw the deal. The opportunities open to the combined authority in moving forward were reported, along with some of the associated risks. The importance and

process to secure European funding for committed projects before the autumn statement were explained.

In responding to a query, P Woods confirmed that the combined authority worked closely with the LEP and business partners, pointing out that some of those were members of the Economic Development and Regeneration Advisory Board (EDRAB).

RESOLVED – That the committee:

- i. Reviewed and challenged the outcomes of the strategic risk review.
- ii. Acknowledged the new risk around funding uncertainties.
- iii. Acknowledged the change in the devolution risk priorities from Amber to Red.
- iv. Noted that a senior officer would be assigned to each strategic risk and opportunity. They would become the risk action manager and be responsible for managing the risk and delivery of the mitigation activity on behalf of the Leadership Board.
- v. Received and noted a verbal update on Devolution from the Chief Finance Officer following the Leadership Board meeting on 6 September 2016.
- vi. A revised risk register to be submitted to the December 2016 meeting of this committee.

25 **INTERNAL AUDIT PROGRESS REPORT – (NECA)**

Submitted: Report by Audit, Risk and Insurance Service Manager (Newcastle City Council) (previously circulated and a copy attached to official minutes), which provided members with progress against the delivery of the 2016/17 internal audit plan; information on the implementation of audit recommendations and a revised 2016/17 internal audit plan.

P Slater introduced the report, pointing out that the audit of the Local Growth Fund Grant (LGF) had been signed off and submitted to the relevant department unqualified. Some of the outstanding actions would require revising and an update would be provided at December 2016 meeting.

RESOLVED – That the committee noted the internal audit activity to date.

26 **ANY OTHER BUSINESS - CURRENT MANAGEMENT ARRANGEMENTS – (NECA)**

At the Chair's request, P Woods gave a verbal update on the current position with regard to the current NECA management arrangements. He explained that for the interim period Helen Golightly, LEP Head of Paid Services had kindly agreed to take-up post as the combined authority's Head of Paid Services until clarity could be sought around a permanent appointment. Due to uncertainties around devolution, the appointment of a Chief Finance Officer had also proven difficult, so he had agreed to remain as the Interim Chief Finance Officer.

The Chair requested clarity to be sort on whether there may be any areas of conflict in relation to the appointment of the Head of Paid Services, with H Golightly being

the LEP, Head of Paid Services, in addition to requesting clarity around the appointment of a support officer for E Goodman, Senior Accountant.

P Woods explained although interviews for a support officer had taken place no appointment had been made. A recruitment Agency was to be engaged to support the combined authority, although there may be the possibility to second an officer from an External Auditor, other than Mazars. He agreed to provide an update at the December meeting about the progress on the appointments and on any potential areas of conflict with the Interim Head of Paid Service appointment.

27 DATE AND TIME OF NEXT MEETING

Tuesday 6 December 2016 at 2.00pm – South Tyneside Council, Jarrow Town Hall.

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North East Combined Authority

Governance Committee

DATE: 6 December 2016

SUBJECT: Requests for Extensions to Dispensations

REPORT OF: Monitoring Officer

EXECUTIVE SUMMARY

The purpose of this report is to determine requests for extensions to dispensations from Members and substitute Members of the Leadership Board in relation to their registerable and non-registerable personal interests.

RECOMMENDATIONS

The Committee is requested to:

- (1) determine the requests for extensions to dispensations submitted by Members and substitute Members of the Leadership Board; and
- (2) authorise the Monitoring Officer to grant extensions to dispensations to the Members and substitute Members of the Leadership Board where such requests are not received in time for consideration by the Governance Committee; and
- (3) when extensions to dispensations are granted, that the Monitoring Officer be authorised to issue a certificate of dispensation to the Members concerned.

1 Background Information

- 1.1 At the Annual Meeting of the NECA, Members of the Leadership Board and those 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 the criteria set out in paragraph 17 of the Code of Conduct may be satisfied requiring a Member to leave the meeting.
- 1.2 The Localism Act 2011 introduced a more generous regime of dispensations to that which existed under the previous arrangements that enables a Member to participate in a meeting relating to a Member's registerable interest provided that the Member has an appropriate dispensation. Members may now be given a dispensation either to speak but not vote, or to speak and vote, on several grounds, including that it would be in the interests of local

North East Combined Authority

Governance Committee

people to allow a dispensation, or even that it is simply “appropriate to grant a dispensation”. Dispensations were granted to Members and Substitute Members of the Leadership Board by the Governance Committee in September 2014 for a period of 2 years and therefore now need to be extended.

- 1.3 The Authority is the Accountable Body for the North East Local Enterprise Partnership. As part of the responsibilities arising in that role, the Leadership Board is called upon to agree to the Authority entering into funding agreements with bodies that have made application for funding from the NELEP. Such agreements on occasion are with one or more of the Constituent Authorities of the NECA and as a result, prior to the grant of dispensation in 2014, when a matter was considered by the Leadership Board the Leader from the Constituent Authority affected declared an interest and left the meeting for the consideration of that item.
- 1.4 The quorum for the Leadership Board is 6 of the 7 members and as a result there is a material risk that the meeting could become inquorate and unable to conduct the necessary business of the Authority. As a result a number of Members of the Leadership Board and their substitutes have sought dispensations from the requirements of the Code of Conduct, under Section 33(2)(c) and (e) of the Localism Act 2011. If an extension of the dispensations is granted it will enable them to speak on any item of business considered at a NECA meeting relating to their interest in the funding to be made available to their own Authority as a result of the NECA entering into the funding agreements. The letters from Members seeking dispensations are attached at Appendix 1.
- 1.5 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 would “impede the transaction of the business”. Effectively this means the decision-making body would be inquorate as a result;
 - (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 so upset as to alter the outcome of any vote on the matter;
 - (4) the NECA considers that a dispensation is in the interests of persons living in its area;

North East Combined Authority

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(5) the NECA considers that it is otherwise appropriate to grant a dispensation.

In view of the potential impact of the Leadership Board being inquorate when these items are due to be considered it is recommended that the dispensations already granted to members of the Leadership Board and their substitutes be extended where requested on the ground that the extension of the dispensation is in the interests of persons living in the area and it is otherwise appropriate to grant the extension to the dispensation.

- 1.6 This Committee granted extensions to the Members and Substitute Members of the Leadership Board on 12 September 2014 for a period of 2 years. As explained at the meeting in 2014, the dispensations could be granted for up to a period of 4 years. However, at that time it was recommended that the dispensation be granted for a period of 2 years on the basis that the dispensations could be extended if considered appropriate. The Committee duly granted the dispensations for a 2 year period. An extension of the dispensations for a further period of 2 years is now being sought.
- 1.7 It was agreed by the Committee in 2014 that further requests for dispensations received from members of the Leadership Board or their substitutes could be considered and dealt with by the Monitoring Officer who was given authority to grant any such dispensations on the grounds identified. A similar authority is now being sought by the Monitoring Officer in relation to any further requests to extend dispensations.
- 1.8 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 any precept annually. 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 consider and determine the requests for dispensations.

3 Next Steps

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

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Governance Committee

4 Potential Impact on Objectives

- 4.1 The issue of dispensations relates to the good governance of the NECA and its decisions making.

5 Finance and Other Resources

- 5.1 There are no particular financial implications in relation to this report.

6 Legal

- 6.1 The Governance Committee on behalf of the NECA may on a written request to the Monitoring Officer from a Member of the Leadership Board or other member of a NECA Committee, grant a dispensation or an extension to a dispensation, relieving the member from either or both of the restrictions in section 31(4) of the Localism Act 2011, namely the member being unable to (a) participate, or participate further, in any discussion of the matter at the meeting, or (b) participate in any vote, or further vote, taken on the matter at the meeting in relation to a matter that concerns a registerable or non-registerable interest.

7 Other Considerations

7.1 Consultation/Community Engagement

The Leadership Board and Chief Officers have been made aware of this report and its contents.

7.2 Human Rights

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

7.3 Equalities and Diversity

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

7.4 Risk Management

There are no risk management implications arising from this report.

7.5 Crime and Disorder

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

North East Combined Authority

Governance Committee

7.6 Environment and Sustainability

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

8 Background Documents

8.1 None.

9 Links to Plans in the Policy Framework

9.1 There are no links to plans in the policy framework

10 Appendices

10.1 Appendix 1 Dispensation Request Letters

11 Contact Officers

11.1 Vivienne Geary, Monitoring Officer, viv.geary@northtyneside.gov.uk

12 Sign off

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

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Contact: Cllr Alan Napier
Direct Tel: 03000 268 797
Fax:
email:
Your ref:
Our ref:



31st October 2016

via email:
viv.geary@northtyneside.gov.uk

Ms. Viv Geary
Head of Law & Governance
North Tyneside Council

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Deputy Leader of Durham County Council and the Council's substitute representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Durham County Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely

Cllr Alan Napier
Deputy Leader of the Council

A handwritten signature in black ink that reads 'Alan Napier'.

Cabinet Office

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

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North Tyneside Council

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

The Monitoring Officer of the NECA
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside NE27 0BY

Date: 26/10/10

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Deputy Mayor of North Tyneside Council and the Council's substitute representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at North Tyneside Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

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Yours sincerely

Deputy Mayor Bruce Pickard

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Viv Geary
Head of Law and Governance
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

My Ref: CD/EA
Your Ref:

Contact: C Donovan
Ext No: 2002

Date: 26 October 2016

Dear Viv

Application to Governance Committee for a Dispensation

I am the Deputy Leader of Gateshead Council and the Council's substitute representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Gateshead Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely



**Councillor Catherine Donovan
Deputy Leader of the Council**

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NORTHUMBERLAND

Northumberland County Council

County Hall • Morpeth • Northumberland • NE61 2EF
Telephone: (01670) 623452 • Web: www.northumberland.gov.uk
Deputy Leader of the County Council – Dave Ledger

DL/TH

26 October 2016

Vivienne M Geary, LLM Solicitor
Head of Law and Governance
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

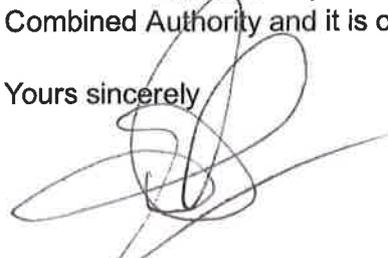
Dear Ms Geary

Application to Governance Committee for a Dispensation

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Yours sincerely



Councillor Dave Ledger
Deputy Leader of the Council



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NORTHUMBERLAND

Northumberland County Council

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Telephone: (01670) 623452 • Web: www.northumberland.gov.uk
Leader of the County Council – Grant Davey

GD/TH

26 October 2016

Vivienne M Geary, LL.M Solicitor
Head of Law and Governance
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Leader of Northumberland County Council, Council and the Council's representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Northumberland County Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

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Yours sincerely


Councillor Grant Davey
Leader of the Council



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Ms V Geary
Monitoring Officer of the NECA
North Tyneside Council
Quadrant
Cobalt Business Park
North Tyneside NE27 0BY

Office of the Deputy Leader
P.O. Box 100, Civic Centre,
Sunderland SR2 7DN

Telephone: 0191 561 1321
Web: www.sunderland.gov.uk

Date: 11 November 2016
Our ref: HT/JC
Your ref:

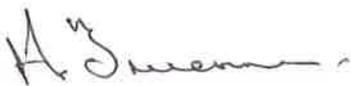
Dear Ms Geary

APPLICATION TO GOVERNANCE COMMITTEE FOR A DISPENSATION

I am the Deputy Leader of Sunderland City Council and the Council's substitute representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Sunderland City Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, in the absence of a dispensation I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely



Councillor Harry Trueman
Deputy Leader of the Council
Direct Line 0191 561 1321
E-mail cldr.henry.trueman@sunderland.gov.uk

NTC
14 NOV 2016
QUADRANT

Residence: 17 Monument View, New Penshaw, Houghton-le-Spring DH4 7JN

Delivering services for a better future

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South Tyneside Council

Ms V Gear
Interim Monitoring Officer
Head of Law and Governance
North Tyneside Council

Date: 31 October 2016
Our Ref:
Your Ref:

viv.geary@northtyneside.gov.uk

Dear Ms Geary,

Application to Governance Committee for a Dispensation

I am the Leader of South Tyneside Metropolitan Borough Council and the Council's representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP).

As a result of my role at South Tyneside Metropolitan Borough Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely,

Councillor Iain Malcolm
Leader of South Tyneside Council

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Ms V Geary
Monitoring Officer
North East Combined Authority
Quadrant
Cobalt Business Park
The Silverlink North
North Tyneside
NE27 0BY

23 November 2016

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Deputy Leader of Newcastle City Council ("the Council") and the Council's substitute representative on the Leadership Board of the North East Combined Authority ("NECA"). The NECA is the Accountable Body for the North East Local Enterprise Partnership ("NELEP").

As a result of my role at the Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with the Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of NECA and it is otherwise appropriate to grant such a dispensation.

Yours sincerely



Councillor Joyce McCarty
Wingrove Ward Councillor and
Deputy Leader of Newcastle City Council

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Councillor Martin Gannon Leader of the Council

Viv Geary
Head of Law and Governance
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

My Ref: MG/EA
Your Ref:
Contact: M Gannon
Ext No: 2002
Date: 26 October 2016

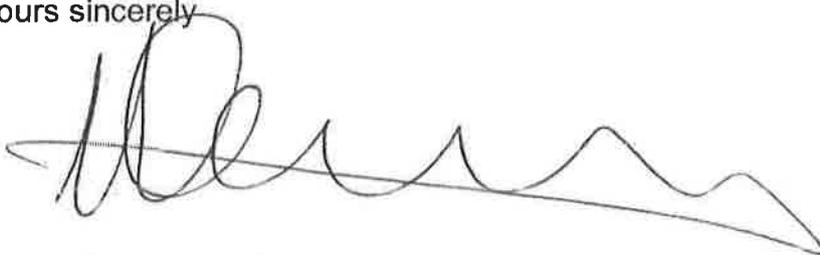
Dear Viv

Application to Governance Committee for a Dispensation

I am the Leader of Gateshead Council and the Council's representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Gateshead Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely



**Councillor Martin Gannon
Leader of the Council**

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Ms V Geary
Monitoring Officer
North East Combined Authority
Quadrant
Cobalt Business Park
The Silverlink North
North Tyneside
NE27 0BY

23 November 2016

Dear Viv -

Application to Governance Committee for a Dispensation

I am the Leader of Newcastle City Council ("the Council") and the Council's representative on the Leadership Board of the North East Combined Authority ("NECA"). The NECA is the Accountable Body for the North East Local Enterprise Partnership ("NELEP").

As a result of my role at the Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with the Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of NECA and it is otherwise appropriate to grant such a dispensation.

Yours sincerely



Cllr Nick Forbes
Leader of the Council

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North Tyneside Council

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

The Monitoring Officer of the NECA
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

Date: 26th OCTOBER 2014

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Elected Mayor of North Tyneside Council and the Council's representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at North Tyneside Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely

Elected Mayor Norma Redfearn

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Ms V Geary
Monitoring Officer of the NECA
North Tyneside Council
Quadrant
Cobalt Business Park
North Tyneside NE27 0BY

Office of the Leader
Civic Centre, Sunderland SR2 7DN

Telephone: 0191 561 1320
Fax: 0191 553 1323
Web: www.sunderland.gov.uk

Date: 11 November 2016
Our ref: PW/JC
Your ref:

Dear Ms Geary

APPLICATION TO GOVERNANCE COMMITTEE FOR DISPENSATION

I am the Leader of Sunderland City Council and the Council's representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Sunderland City Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, in the absence of a dispensation I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely



Councillor Paul Watson
Leader of the Council
Direct Line 0191 561 1320
E-mail cllr.paul.watson@sunderland.gov.uk

NTC
14 NOV 2016
QUADRANT

Residence: 5 Floral Dene, South Hylton, Sunderland SR4 0NW

Delivering services for a better future

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



Vivienne M Geary, LLM Solicitor
Head of Law and Governance,
North Tyneside Council Quadrant
The Silverlink North
Cobalt Busines Park
NORTH TYNESIDE
NE27 0BY

31 October 2016

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Leader of Durham County Council and the Council's representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Durham County Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

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

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North East Combined Authority

Governance Committee

Date: 6 December 2016

Subject: Draft Budget 2017/18 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 2017/18 NECA budget, as part of its consultation process. A summary report on the Draft 2017/18 Budget was presented to the Leadership Board on 15 November and this 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

1 Background Information

- 1.1 The purpose of this report is to seek the views of the Governance Committee on proposals for the 2017/18 NECA budget, as part of its consultation process. The summary report on the Draft Budget presented to the Leadership Board on 15 November covering all aspects of the NECA budget, is attached as an appendix.

2 Proposals

- 2.1 The budget proposals for 2017/18 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 23 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 2016/17 budget.

3 Next Steps

- 3.1 The main budget for 2017/18 will be presented to the Leaders Board for agreement on 17 January 2017.

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

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 15 November 2016 – Draft Budget 2017/18 and Transport Levies

11 Contact Officers

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

North East Combined Authority

Governance Committee

12 Sign off

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

13 Glossary

North East Combined Authority

Leadership Board

Date: 15th November 2016

Subject: North East Combined Authority Budget 2017/18

Report of: Head of Paid Service and Chief Finance Officer

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to set out the key budget issues, principles and proposals that are likely to be included in the 2017/18 Budget Report for the North East Combined Authority (NECA) for consideration by the Leadership Board on 17th January 2017. The issues identified in this report and the comments at the meeting will form the basis for consultation on NECA's Budget, as required in its constitution. Not all of the information needed to complete the budget is currently available, in particular the details of Government grant funding, which should be announced between the time of the Autumn Statement on 23th November and the end of December.
- 1.2 The responsibilities and role of NECA in future years will depend on the outcome of devolution discussions and any subsequent governance review. In the absence of a devolution agreement to be implemented by NECA in 2017/18, it is intended that costs in 2017/18 be kept to the minimum level necessary for NECA to fulfil its statutory responsibilities. The revenue budget for 2017/18 will reflect the Transport responsibilities of NECA and functions relating to economic development and the delivery of NECA's responsibilities as the accountable body for the North East LEP and for the use of Government grants. The capital programme will include Transport capital investment programmes and the Local Growth Fund (LGF) grant funded projects and programmes.
- 1.3 Further information about the detailed content of the budget is currently being developed in discussion with constituent authorities. The outcome of these discussions and the information to be announced in the Autumn statement about grant funding will be reflected in the report to the Leadership Board in January, together with any comments that emerge from consultation. As further information becomes available it will be included in future reports, including information provided to Overview and Scrutiny Committee.
- 1.4 NECA is required by law to set its Transport budget and levies for 2017/18 by 15th February 2017 at the latest. It is also necessary to agree the level of any contributions from constituent councils towards non-transport costs,

North East Combined Authority

Leadership Board

so that the councils can take the levies and contributions into account in setting their own budgets for 2017/18.

- 1.5 It is intended that the Leadership Board will set the Base Revenue Budget, and the Initial Capital Programme and Transport levies at its meeting on 17th January 2017. This will provide the information about transport levies and contributions to the NECA budget in good time for the seven constituent councils to include it within their budgets. Further consideration will need to be given over the next few months to how activity relating to Skills and Adult Education devolution in future years will be managed and funded. As any additional revenue and capital funding for 2017/18 and future years is confirmed, the Leadership Board can agree revisions to its Revenue and Capital Budget at its future meetings.
- 1.6 This budget report sets out the indicative level of resources planned to be used in 2017/18 to help deliver the Objectives of NECA and the North East Strategic Economic Plan. The budget has also to be set in the context of the national position of austerity, which is expected to require further savings to be achieved in local authority revenue spending over the next four years; as well as reflecting any new capital investment opportunities presented by the Autumn statement.
- 1.7 At this point it is envisaged that –
- The provisional Transport Revenue Budget and Levies for 2017/18 are estimated to be £84.8m, which is a cash reduction of -£2.09m (-2.4%) compared with the current year. This is to be delivered mainly through efficiency savings and use of reserves with no significant cuts in transport services in 2017/18. Potential cuts in transport services that may be needed to balance the budget in future years are explored, with consultation in 2017 for implementation from 2018 onwards;
 - The match funding contribution of £250k for the cost of the North East LEP is proposed to continue in 2017/18. The level of other contributions towards corporate costs and inward investment will be subject to the outcome of discussions with constituent councils;
 - Capital investment in transport, infrastructure and economic development is expected to be lower than in the current year, with an indicative programme of around £80m, plus any new capital grants announced in the next few months; and
 - The only significant fees or charges to be set by the NECA as part of the 2017/18 budget relate to Metro Fares, where a weighted average increase of 1.4% (which is less than RPI inflation) including another freeze in Child fares, maintaining the discounts that are offered to students and young people aged 16 to 18 and increasing the price differential for Pay As You Go products, has been agreed by the Tyne

North East Combined Authority

Leadership Board

and Wear Sub-Committee for implementation on 2 January 2017. No increase in the Tyne Tunnel Tolls is proposed next year.

2. RECOMMENDATIONS

2.1 It is recommended that the Leadership Board –

- a) receive this report for consideration and comment;
- b) agree the budget approach of setting out a detailed revenue budget for 2017/18 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 2017/18 as well as the need to achieve savings to help constituent authorities deal with cuts in their funding as part of the Government's continuing austerity measures. Indicative transport budgets will be set out over a three year period, where it is possible to do so;
- c) agree that the following points and proposals form the basis of consultation about the NECA 2016/17 Revenue Budget : -
 1. The Transport Budget for Tyne and Wear is indicatively proposed to be set at £63.04m, which is a further reduction of £2.08m (- 3.2%) compared with the budget this year. The cost saving to councils is proposed to be delivered by way of a combination of a repatriation of reserves and a sustainable reduction in the levy. The budget savings needed to deliver this are expected to be made in 2017/18 without any significant impact on transport services, through efficiencies and further temporary use of Nexus reserves. The delivery of further savings in future years is likely to require cuts in services from 2018 and options to achieve sustainable savings and a balanced budget by 2019/20 will be consulted upon during 2017.
 2. The indicative Transport Budget and Levy for Durham County Council area is expected to be £15.482m, which is a small net increase of £0.042m. No reductions in services are envisaged for 2017/18.
 3. The indicative Transport Budget and Levy for Northumberland County area is likely to be around £6.286m, which is a reduction of £0.048m on the current year's budget. No reductions in services are envisaged for 2017/18.
 4. The £250k contribution to fund the North East LEP, which is required to match fund the Government Grant, is proposed to be continued in 2017/18;
 5. NECA will need to maintain sufficient capacity to meet its statutory requirements. Savings in the Corporate costs are being

North East Combined Authority

Leadership Board

investigated and discussed with constituent councils and the outcome in terms of the level of corporate contributions (currently £300k is contributed towards a gross corporate budget cost of £550k) will be included in the January Budget report;

6. The contribution to the Inward Investment Team are also subject to discussion with constituent councils and the North East LEP. The current contributions of £140k part fund a budget of £505k in 2016/17, with an estimated outturn spend of around £439k. Options are being developed for inclusion in the January budget report.
 7. Proposals for the uplift in Metro fares to cover inflation cost pressures have been developed to constrain the weighted average increase to 1.4%, which is 0.5% less than the annual increase in the July 2016 RPI inflation index. Detailed proposals were agreed by the Tyne and Wear Sub-committee at its 3rd November meeting, which included a further freeze in child fares, with a potential implementation date of 2 January 2017. No increase in the Tyne Tunnel Tolls is proposed for 2017/18.
 8. The North East LEP Budget is being prepared to reflect its responsibilities and the estimated available resources for 2017/18. A draft budget will be considered by the LEP Board later in November and more information will then be included in the January Leadership Board.
 9. NECA will need to set out a balanced budget for 2017/18, maintaining a sufficient but minimal level of reserves to manage risk and will set out a treasury management strategy for borrowing and lending which will comply with the Prudential Code.
- d) Agree that a narrative document be prepared from the content of this report and the comments and decisions of the Leadership Board, which will set out the budget proposals in an appropriate format for consultation.

North East Combined Authority

Leadership Board

3. THE POLICY CONTEXT

- 3.1 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.
- 3.2 The capital and revenue resources of the Combined Authority and the NELEP will be targeted to achieve the priorities set out in the Strategic Economic Plan (SEP) and the Transport Levies that the Combined Authority will set will help meet the statutory transport responsibilities of the Combined Authority, which can also contribute to priorities in the SEP.
- 3.3 The Combined Authority has agreed three broad Policy priority areas –
- **Transport**
 - **Employability and Inclusion**
 - **Economic Development and Regeneration**
- 3.4 The North East Strategic Economic Plan which was published in April 2014 was focused on delivering 'More and Better Jobs'. A refresh of the Strategic Plan has been undertaken and the updated strategy is due to be published shortly.
- 3.5 The Revenue Budget and Capital Investment Programme of NECA will contribute to the achievement of these objectives.
- 3.6 The fact that the proposed NECA Devolution agreement with Government will not be implemented in the current year, and the ongoing discussion about the potential for a Devolution agreement covering part of the NECA area will have an impact on the scope of the responsibilities of NECA in 2017/18 and future years. The NECA budget will need to take into account the outcome of these discussions. The opportunity for cost savings in 2017/18 is being explored and this will be reflected in the January Budget report.
- 3.7 The result of the referendum vote to leave the EU will have an impact on the local economy and on the availability of European Funding. NECA has sought assurances from the Government about the future of European and equivalent regional funding from the UK Government after the exit from the EU. Limited assurances have been received about the EU funding in the current period to 2020, with no assurances about the level of regional support in future years. Further information about the Government's response to the impact on the economy is expected to be included in the Autumn Statement, which should also include an announcement about the bids for the third round of Local Growth deal funding.

North East Combined Authority

Leadership Board

European Funding

- 3.8 While there is no European funding as part of the NECA revenue budget, European funding is particularly important to the region in supporting training and employment initiatives, helping to fund capital investment and a major programme of Access to Finance for businesses, for example through the JEREMIE 2 programme. An update on EU funding will be included in the January report.

Local Growth Deal

- 3.9 The North East LEP and NECA have submitted a programme of projects for consideration for Local Growth Fund grant. The level of LGF round 3 capital grant funding over the next four years is expected to be announced about the time of the Autumn Statement on 23rd November. The results of the announcement will be combined with the current programme and will be presented as part of the new Capital Programme for 2017/18 to 2020/21 to be reported to the North East LEP and the NECA Leadership Board in January.

4. BACKGROUND INFORMATION – BUDGET PROCESS

- 4.1 Levying Bodies regulations require Transport Authorities to set their Budgets and Levies by 15th February each year. Traditionally levies 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 it in their budgets. As well as transport levies the Budget will set out any contributions from Councils to meeting the non-transport costs of the Combined Authority and will set out information about the Capital Investment Programme of the Combined Authority and how the programme is to be funded.
- 4.2 As the accountable body for the North East Local Enterprise Partnership (NELEP), the Budget will include information about the funds available to NELEP and the NELEP's proposed Budget for 2017/18. The budget will need to reflect Spending Review decisions about the level of grant given to support LEP costs as well as the guidance and the resource requirements needed to meet grant conditions.
- 4.3 It is good practice for all organisations to develop a Medium Term Financial Strategy (MTFS) and it would be preferable to develop the 2017/18 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 uncertainty over Government funding and the transitional position of NECA itself has not made this possible. The potential for more certainty over the revenue grant for constituent councils and the level of cuts that they need to achieve to deliver

North East Combined Authority

Leadership Board

the Government's austerity programme over the next three years, make a three year indicative revenue transport budget possible and this is being explored. With the announcement for LGF round 3 funding a four year capital programme can be produced. The uncertainty over the scope of NECA responsibilities in future years will mean that the small corporate budget and other contributions from constituent councils will need to continue to be set on an annual basis.

- 4.4 Ambitious bids for major transport and infrastructure projects and programmes supported by funding secured from DFT national funding continue to be made and the results of these will be reflected in the capital programme as announcements are made.
- 4.5 A key decision in the Revenue Budget is what the level of the Transport Levy will be for 2016/17 and future years for Tyne and Wear and for Durham and Northumberland and the level of the contribution from the 7 councils for non-transport costs, including the contribution to fund capacity and corporate costs.
- 4.6 The constitution of the Combined Authority requires an early consultation on Budget Proposals, giving at least two months for the consultation process to be completed. This report will start the consultation process, which will include consideration of the budget report by Overview and Scrutiny Committee, Transport North East Committee, the seven constituent councils, consideration by NELEP and a consultation with the North East Chamber of Commerce.
- 4.7 The timetable for developing the 2017/18 Revenue Budget and the Capital programme is very tight and involves a number of steps for discussion, consultation and development of the Budget, as can be seen from the draft timetable set out in Appendix A. Initial technical briefings and discussions on the budget process and timetable have taken place with all councils and this has resulted in the high level proposal for 2016/17 set out in this report. Further details will be developed and fine-tuned in partnership with the NELEP, councils and delivery organisations over the next few months. This additional detailed work and the feedback from consultation will then be reflected in a detailed 2017/18 Budget Report for consideration in January 2017.

5. CONTEXT OF AUSTERITY MEASURES

- 5.1 The budget is being developed in the context of significant revenue funding cuts for local government as part of the delivery of the national austerity measures, which is expected to require significant cuts over the next four years. The revenue support grant and indicative spending power figures for local government over the next three years was announced earlier this year.

North East Combined Authority

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The announcement envisaged a reduction in spending power for the constituent councils of NECA next year of £52m (excluding the increase in the better care fund and the extra permitted social care precept uplift). The spending power for councils will also depend on the projections of business rate income, which is uncertain due to the level of appeals and the results of the recent Business Rate revaluation. The detailed allocations of grant for councils including information about business rates adjustment for the impact of the revaluation is expected to be announced later in December.

- 5.2 Councils are also facing significant spending pressures, in particular in their social care budgets. This means that councils will have to find significant additional revenue budget savings over the next three to four years. At present the seven constituent councils in NECA are expecting to have to achieve around £180m of revenue budget savings next year to set a balanced budget.
- 5.3 The implications of the announcement of cuts in funding for Transport and NECA will be analysed and reported to the Leadership Board in January.

6. REVENUE BUDGET PROPOSALS

6.1 Transport Revenue Budgets and Levies for 2017/18

- 6.1.1 The overall total proposed net revenue budget for transport in 2017/18 is currently £84.808m. This represents a net reduction of £2.086m (-2.4%) on the overall transport net revenue budget for 2016/17. Information about the draft budget and the levy for each of the three areas in NECA are summarised in the table below and set out in more detail in the following sections. Three separate Levies are required because the cost per person varies greatly between each area, ranging from £19.94 per head in Northumberland to £29.79 per head in Durham and £56.18 per head in Tyne and Wear. 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.

North East Combined Authority

Leadership Board

Table 1: Summary of proposed transport budgets and levies 2017/18

Area	Transport Budget and Levy	Change from 2016/17	Levy per Person
	£	£	£/person
Durham	15,482,424	42,381	£29.79
Northumberland	6,285,980	(47,949)	£19.94
Tyne and Wear	63,040,000	(2,080,000)	£56.18
Total	84,808,404	(2,085,568)	

Durham County Council

- 6.1.2 The budget and levy for public passenger transport activity in County Durham is expected to be in the region of £15.482m for 2017/18. This compares with an original budget of £15.440m for 2016/17 and a revised forecast for 2016/17 estimated at £15.399m. The budget and levy for 2017/18 is summarised in the table below.

Table 2: Draft Durham Transport Budget and Levy 2017/18

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Grant to Durham			
Concessionary Fares - Statutory	11,746,934	(9,000)	11,737,934
Concessionary Fares - Discretionary	537,000	0	537,000
Subsidised Bus Services	4,119,971	(1,806,551)	2,313,420
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	637,334	0	637,334
Total Grant	17,714,820	(2,237,396)	15,447,424
Share of NECA Transport Costs	5,000	0	5,000
Transport Levy	17,719,820	(2,237,396)	15,482,424

- 6.1.3 The overall bus network in County Durham remains fairly stable and we are not aware of any significant commercial changes planned for 2017/18. The total number of bus passenger boardings in the County has seen a further modest decline over the past twelve months; this is considered to be

North East Combined Authority

Leadership Board

generally in line with national trends.

- 6.1.4 The budget for subsidised bus services was reduced by £400,000 in 2016/17 through a combination of efficiency savings and a reduction in costs following contract retendering. Although there are no confirmed plans to make further reductions, it will be necessary to keep this area of the budget under review in line with Durham County Council's Medium Term Financial Plan requirements.
- 6.1.5 The majority of the council's subsidised service contracts are due to be retendered in July 2017. This creates a degree of budget uncertainty and we are anticipating some modest pressure on contract costs in line with the recent introduction of the National Living Wage. The focus of spend on subsidised services will continue to be on maintaining the level of accessibility in rural and semi-rural areas and supplementing the daytime commercial network with early and later journeys.
- 6.1.6 The budget for concessionary fares continues to be subject to pressure from commercial fare increases. However, these impacts are largely being mitigated by a combination of the effects of the rise in entitlement age and a stabilisation of concessionary travel journeys.
- 6.1.7 In addition to public transport services, the transport team in Durham will continue to focus on integration and efficiency in the delivery of home to school transport and adult social care transport across the County.

Northumberland County Council

- 6.1.8 The draft budget and levy for public transport activity in Northumberland is expected to be in the region of £6.286m for 2017/18. This compares with a budget of £6.334m for 2016/17. The budget and levy for 2017/18 is summarised in the table below.

Table 3: Draft Northumberland Transport Budget and Levy 2017/18

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Concessionary Fares	4,802,940	(12,940)	4,790,000
Subsidised Bus Services	1,999,740	(696,340)	1,303,400
PT Information	3,400	0	3,400
Staffing	184,180	0	184,180
Total Grant	6,990,260	(709,280)	6,280,980
Share of NECA Transport Costs	5,000	0	5,000
Transport Levy	6,995,260	(709,280)	6,285,980

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- 6.1.9 The indicative budget for 2017/18 has reduced slightly compared to the levy agreed by the Leadership Board in January 2016. This had been set higher than the figures reported to the Transport North East Committee in November 2015 due to Northumberland increasing its 2016/17 Concessionary Fares budget. This was due to a perceived pressure around the number of people that would be using their passes and therefore the reimbursement that would be due to the operators resulting in the budget being insufficient to cover the forecast expenditure.
- 6.1.10 The budget for Bus Services is unchanged to its current level with no significant investment in the county's bus stations planned for 2017/18. The final budget will be agreed at the Council's Cabinet on 6th December 2016 and ratified at the full County Council meeting on 7th December 2016.

Tyne and Wear

- 6.1.11 Figures for the Tyne and Wear levy have been prepared on the basis of the potential Budget and Levy approach and figures discussed with local authorities earlier in 2016, which involved a proportionate saving broadly in line with the reduction in Spending Power of the Tyne and Wear authorities (excluding the social care precept increase). In headline terms this would involve a cash saving to constituent councils of £2.080m (-3.2%) in 2017/18, £3.32m (5.1%) in 2018/19 and £3.92m in 2019/20.
- 6.1.12 The distribution of the Levy within Tyne and Wear is based on population and the levy will reflect changes in population as well as the cut in the overall amount. The indicative levy for 2017/18 for each of the Tyne and Wear districts is shown below, assuming that a sustainable levy reduction can be made. The saving to councils of £2.080m in 2017/18 will be achieved through a combination of a sustainable levy reduction and a repatriation of reserves, with a full sustainable levy reduction being made once budget savings have been agreed.

Table 4: Draft Tyne and Wear Transport Budget and Levy 2017/18

District	Population (2015 Mid Year Estimates)	2017/18 Proposed Contribution	Saving compared to 2016/17
Gateshead	200,996	11,291,085	(380,260)
Newcastle	292,883	16,452,899	(418,323)
North Tyneside	202,494	11,375,236	(426,441)
South Tyneside	148,671	8,351,693	(306,425)
Sunderland	277,150	15,569,087	(548,551)
Total	1,122,194	63,040,000	(2,080,000)

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- 6.1.13 This reduction would bring the overall annual transport levy reduction since 2010 to £15.08m, which has largely been achieved through efficiency savings and 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.
- 6.1.14 Proposals for the Nexus budget are set out in detail for consideration by Tyne and Wear Sub Committee as part of their agenda. They have taken into account consultation on service priorities undertaken during 2016. The proposals for 2017/18 involve the achievement of the saving through further efficiency measures; savings in capital financing costs; some temporary use of reserves and changes which have a minimal impact on services and no impact on services considered to be a higher priority. The potential for a further reduction in the levy in future years is also being considered by the Tyne and Wear Sub Committee. The achievement of this further saving and the delivery of a balanced budget over the next three years is likely to have an impact on Transport services in Tyne and Wear and this will be the subject of further consultation in 2017 before services changes are implemented in 2018. The detailed recommendations agreed by the Tyne and Wear Sub Committee will be reflected in the Budget report to the Leadership Board and in any consultation. 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:

Table 5: Allocation of the draft Tyne and Wear Levy/Contribution for 2017/18

	2016/17	2017/18	Change
	£	£	£
Levy budget (non-Nexus)	2,620,000	2,150,000	(470,000)
Grant to Nexus	62,500,000	60,890,000	(1,610,000)
Total Levy	65,120,000	63,040,000	(2,080,000)

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6.1.15 Proposals for the Nexus budget have been set out in detail for consideration by Tyne and Wear Sub Committee as part of their agenda. The proposed 2017/18 budget for Nexus is summarised in the table below:

	Direct Costs	Income	Net Direct Costs	Indirect Costs	Grants	Loan Interest	Capital Adjustments	2017/18 Net Budget
	£m	£m	£m	£m	£m	£m	£m	£m
ENCTS	35.941	(1.094)	34.847	0.925	0.000	0.000	0.000	35.772
Discretionary CT	11.713	(7.599)	4.114	0.109	0.000	0.000	0.000	4.223
Metro	82.747	(46.053)	36.694	12.482	(24.974)	1.437	(21.738)	3.901
Ferry	1.383	(0.441)	0.941	0.593	0.000	0.020	(0.209)	1.344
Local Rail	0.161	0.000	0.161	0.280	(0.240)	0.020	0.000	0.221
Bus Services	15.023	(3.791)	11.232	1.641	0.000	0.016	(0.005)	12.884
Bus Infrastructure	2.415	(0.580)	1.834	0.685	0.000	0.359	(0.450)	2.429
Public Transport Information	0.884	(0.090)	0.794	1.196	0.000	0.007	(0.256)	1.741
Major Projects	2.280	0.000	2.280	0.000	(0.931)	0.000	0.000	1.349
Total Requirement	152.546	(59.650)	92.896	17.911	(26.145)	1.858	(22.658)	63.863
NECA Grant (Levy)								(60.890)
Reductions to base								(1.363)
Deficit Funded from Reserves								1.610

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Tyne and Wear Transport Budget (non-Nexus)

- 6.1.16 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 (89%) relates to financing charges on historic debt. Additionally, there is budget provision to pay for support services/Transport SLAs, other supplies and services, the external audit fee and a repayment to the Tyne Tunnels for use of reserves in 2013/14 to pay off the pension deficit.
- 6.1.17 The Tyne and Wear (former ITA) Transport Revenue reserves are estimated to reduce from £0.563m at the start of 2016/17 to £0.499m at the year end, prior to any repatriation of reserves in the current year. The indicative overall position for 2017/18 is largely breakeven. The indicative budget for 2017/18 is summarised in the table below.
- 6.1.18 The reduction in the contribution from the levy has largely been achieved through a proposed change to the method for calculating the Minimum Revenue Provision (MRP) which is the set aside from reserves to meet debt repayments in future years. For Tyne and Wear, this debt is historic supported borrowing taken out by the former Passenger Transport Authority, where the constituent Tyne and Wear authorities receive government grant. The proposal would involve moving from a 4% reducing balance method of calculating MRP, to a 2% straight line basis. This will be discussed in more detail in a report to the Leadership Board in November.

Table 6: Draft Tyne and Wear centrally held Transport Budget 2017/18

	2016/17 Revised Estimate	2017/18 Estimate	Change
	£000	£000	£000
Support Services / Staffing	230	230	-
Administration and Governance	40	43	3
Financing Charges	2,303	1,769	(534)
Contingency / Devolution	110	110	-

Tyne Tunnels

- 6.1.19 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.
- 6.1.20 In 2016/17 the original budget for the Tunnels account had a small planned deficit of £0.289m to be funded from the Tyne Tunnels Reserves. Increased

North East Combined Authority

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traffic flow in year has resulted in increased income, and along with savings in financing costs, the net outturn for the account in 2016/17 is estimated to be a reduced deficit of £0.120m.

6.1.21 The indicative budget for 2017/18 is set out in the table below.

Table 7: Draft Tyne Tunnel Budget 2017/18

	2016/17 Revised Estimate	2017/18 Estimate	Change
	£000	£000	£000
Tolls Income	(29,633)	(29,800)	(167)
Contract payments to TT2	22,968	23,097	129
Employees	37	39	2
Pensions	52	53	1
Support Services	90	90	-
Supplies and Services	35	35	-
Community Fund	10	10	-
Financing Charges	6,901	6,900	(1)
Interest/Other Income	(100)	(100)	-
Repayment from TWITA reserves	(240)	(240)	-
Contribution (to)/from reserves	120	84	(36)

Regional Transport Team

6.1.22 The Regional Transport Team budget supports NECA and NELEP 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.

6.1.23 The table below provides a summary of the forecast expenditure for 2016/17 and indicative budget for 2017/18, which is still subject to further discussions about the level of activity needed in 2017/18. The outcome of these discussions will be reflected in the January 2017 budget report.

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Table 8: Indicative Regional Transport Team Budget for 2017/18

	2016/17 Forecast	2017/18 Indicative Estimate
Staffing	489,300	519,100
LTP4 Development and LGF Business Case Assessment	332,700	220,000
Research and Development	178,600	150,000
Miscellaneous (e.g. Travel & meetings)	8,000	8,000
	1,008,600	897,100
Funded by:		
NECA Integrated Transport Block	(500,000)	(500,000)
LGF Programme Management	(400,000)	(200,000)
Prior Year balances carried forward	(315,595)	(200,000)
	(1,215,595)	(900,000)

6.2 Economic Development / NELEP Capacity

- 6.2.1 The NELEP core team is part funded from a Government contribution matched by a contribution from the constituent authorities. The Government has previously announced the continuation of their £250k grant in 2017/18, subject to match funding from the local authorities. It is proposed that the current match funding contribution of £250k will continue to be provided next year and this is funded by equal contributions of £35,714 from the seven constituent authorities. Part of the LEP costs of managing the LGF programme is funded from a 2.5% top slice from the LGF grant. The reduction in the value of this capital programme next year means that this funding contribution will reduce in cash terms over the next few years, with the contribution in 2017/18 falling to around £1.0m compared to the current year's contribution of £1.3m. The LEP budget is being prepared to reflect the latest estimate LGF grant funding.
- 6.2.2 The NELEP has significant loan funds and an update on the estimated level of funds available next year will be reported to the January meeting. The Loans funds will be used to help businesses with a view to increasing the number of jobs and support economic growth. NECA can help the NE LEP accelerate and increase the level of Loans funds available to support businesses. The NE LEP has also been working with the seven local authorities to establish a major new five year JEREMIE 2 fund provide access to finance for businesses and

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this will be launched early next year.

Inward Investment

- 6.2.3 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 £505k. 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 2017/18 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 2017/18. The latest estimate of the outturn position for this budget is set out in the table below.

Table 9 : Inward Investment budget 2016/17 update

	2016/17 Original Budget	2016/17 Forecast
	£000	£000
Employees	165	155
Staff Training	2	2
National travel and subsistence	10	7
Overseas travel	10	-
Web, telecoms, computers	15	5
Marketing/Comms/Events	133	133
Membership Fees	5	5
Visit hospitality costs	15	10
Professional consultancy	30	30
Lead generation / representation (overseas)	40	-
Lead generation / representation (London)	45	45
Research resource licenses	25	18
Propositions refresh	10	10
Total Estimated Cost	505	439
Funding		
Local Authority Contribution	140	140
LEP matching Contribution	140	140
LEP One off Contribution	20	20
Private sector contributions	10	10
Balance carried forward from 2015/16	123	94
Contribution from Enterprise Zone funding	72	35
Total Estimated funding	505	439

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6.3 NECA Corporate Costs

6.3.1 The NECA budget for Corporate Costs in 2016/17 was £550,000, which was part funded by council contributions of £300,000, funded equally by a £42,857 contribution from each of the constituent authorities, which was the same contribution as in the previous year. The balance was to be funded by interest on revenue balances and treasury management cash flow activity in 2016/17. In the absence of devolution, corporate costs are expected to be lower, but interest income is also expected to be lower this.

6.3.2 For 2017/18 an exercise is underway to identify a reduced level of corporate cost needed for NECA to meet its statutory obligations. The estimate of income is also being revised and the net cost will form the proposed contribution from councils in 2017/18. The results of the discussions with councils are expected to be reflected in the January budget report.

6.3.3 The main areas of cost relate to support costs in relation to Head of Paid service, Monitoring Officer and Legal costs, Chief Finance Officer and Finance costs, HR support, Internal and External Audit, administration and co-ordination costs, communications costs and scrutiny costs, which continue from previous years and other operating costs. It is important that the Combined Authority is able to fulfil its statutory and corporate functions effectively and that reasonable costs are funded appropriately. Options are being explored to minimise the gross and net costs and the outcome will be reported in the January Budget report.

7. FEES AND CHARGES

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

7.2 In the past, in order to meet budget targets and to align with national rail fare increases, Metro fares have traditionally been reviewed with changes coming into effect from January. Detailed proposals were reported to the Tyne and wear Sub Committee at its meeting 3rd November, where a weighted average increase of 1.4% (which is less than RPI inflation) including another freeze in Child fares, maintaining the discounts that are offered to students and young people aged 16 to 18 and increasing the price differential for Pay As You Go products, was agreed for implementation on 2 January 2017.

7.3 This increase is necessary in order to help meet the financial targets required by the Nexus Medium Term Financial Forecast.

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7.4 No changes are proposed to the Tyne Tunnel tolls in 2017/18.

8. RESERVES AND CONTINGENCIES

8.1 The General Reserve of NECA was set at a relatively low level of £350k for 2014/15. This fell to £279k at the end of 2014/15 and to £208k at the end of 2015/16. Reserves were temporarily being used to fund Devolution costs in 2016/17 and are expected to be will replenished in 2016/17. The required level of the Corporate Reserve for 2017/18 will be reassessed based upon a risk analysis taking into account the resources available to meet corporate costs next year and may need to be restored to a higher level, which could be achieved by use of additional interest on revenue balances.

9. POTENTIAL IMPACT ON OBJECTIVES

9.1 The budget and Medium Term Financial Strategy will reflect the policy objectives of the Combined Authority including the delivery of the Strategic Economic Plan. Future reports will set out revenue and capital budget proposals that will help deliver the objectives of the Combined Authority

10. FINANCE AND OTHER RESOURCES

10.1 The financial and other resources are summarised in this report, where they are known. Further detail that are known about the impact of the Spending Review in terms of funding cuts and additional funding to be available under the Devolution Agreement and successful bids for Enterprise Zones will be identified in the January Budget Report.

11. LEGAL

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

11.2 In accordance with the Budget and Policy Framework Rules of Procedure of the NECA's 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. The accompanying information will include details of how it is intended to consult with the Constituent Authorities, stakeholders and residents as well as the timetable for the consultation and preparation of the final proposals. The Overview and Scrutiny Committee, after considering the consultation proposals and timetable can make appropriate recommendations to the Leadership Board in that regard.

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- 11.3 Once the consultation process has been completed, details of the final proposals in relation to the Revenue Budget and levy will be referred to the Overview and Scrutiny Committee. The Leadership Board when considering the final proposals will take into account the recommendations and/or observations of the Overview and Scrutiny Committee. The Leadership Board must approve the final overall budget proposals unanimously.

12 OTHER CONSIDERATIONS

12.1 Consultation/Community Engagement

- 12.1.1 The NECA constitution requires that consultation on its budget proposals to be undertaken at least two months prior to the budget being agreed. It is proposed that the 2017/18 Base Budget Proposals be reported to the Leaders Board on 15 November to start a consultation process, which will include the Overview and Scrutiny Committee and the North East Chamber of Commerce. New proposals to be considered as potential budget increases later in the year would also be subject to a consultation process.
- 12.1.2 NELEP will be considering its budget from November to January. Consultation on any specific Transport proposals with service impact in Durham, Northumberland and Tyne and Wear will be undertaken by individual councils/delivery organisations. Overview and Scrutiny Committee will consider the budget process and the key proposals at its meetings on 1st December.
- 12.1.3 In order to assist with the consultation process, it is proposed that a narrative document be prepared from the content of this report and the comments and decisions of the Leaders board of 15 November, which will set out the budget proposals in an appropriate format for consultation.
- 12.1.4 With recommendations for Transport budgets and Levies being considered by committees in December, comments on the initial proposals should be received by 20th December if they are to be reflected in the consideration by the Transport North East Committee and by Durham and Northumberland County Councils. Comments on all budget proposals should be received by 4 January 2017 in order to be taken into account in producing the Budget report for the NECA Leaders Board meeting in January. Additional comments received after these dates could be taken into account by the Leaders Board in taking their decision on 17th January.
- 12.1.5 The late confirmation of funding means that new funding for 2017/18 will have to be reported to future meetings of the NELB and a consultation process for the use of that funding will need to be put in place.

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12.2 Human Rights

Any human rights issues will be reflected in the future reports on budget proposals.

12.3 Equalities and Diversity

There are no specific issues arising directly from this report.

12.4 Risk Management

Appropriate risk management arrangements will be put in place and reported as part of the Budget Report in January. Key issues will be the level of reserves and mitigation measures that can be put in place.

12.5 Crime and Disorder

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

12.6 Environment and Sustainability

There are no specific issues arising directly from this report. The Budget reports will set out environment and sustainability implications.

13. BACKGROUND DOCUMENTS

- 13.1
 - NECA Constitution
 - Growth Deal announcement – July 2014
 - NECA 2016/17 Budget Report – January 2016.

14 LINKS TO THE LOCAL TRANSPORT PLANS

- 14.1 The Budget Report itself will reflect all of the NECA Plans and Policies and links to the policies are set out in the report.

15. APPENDICES

- 15.1 Appendix 1 : Updated Budget Timetable

16. Contact Officers

- 16.1 Paul Woods, Chief Finance Officer. Paul.Woods@northeastca.gov.uk, Tel: 07446936840

North East Combined Authority

Leadership Board

17. SIGN OFF

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

North East Combined Authority

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Appendix 1 Budget Timetable

DATE	EVENT	ACTION
26? January 17	NELEP Board	Final Budget Report
17 January 17	NECA Leaders Board	Formally Agree Levies / Budget
9 January 17	Paper circulation	Final Budget report Published
22 December 16	Deadline	Deadline for comments from Councils etc for inclusion in the final report
14 December	NECA Overview and scrutiny Committee	Consider Budget Report as part of Consultation Process date to be confirmed
w/c 12 December	Meeting with North East Chamber of Commerce	Consultation on Budget and Levy Proposals for January 2017 Meeting
6 December	Governance Committee	Consider Budget Report as part of Consultation Process date to be confirmed
24 November	North East LEP Board	Consider/Agree Draft Budget Proposals
15 November	NECA Leaders Board	Consider and agree Draft Budget Report for Wider Consultation

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North East Combined Authority

Governance Committee

Date: 6 December 2016

Subject: Annual External Audit Letter 2015/16

Report of: External Auditor

Executive Summary

The purpose of this report is to present the Annual Audit Letter for 2015/16. The letter will be presented by a representative of our External Auditor, Mazars.

Recommendations

It is recommended that the Committee receive the report for information.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The purpose of this report is to present the Annual Audit Letter for 2015/16, which is the final reporting requirement in relation to the audit of the 2015/16 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 2015/16.
- 2.2 At the last meeting of the Governance Committee, it was requested that a copy of the Management Letter of Representation signed by the Chief Finance Officer be circulated. This is attached as Appendix 2.

3 Next Steps

- 3.1 NECA finance officers are engaging with the auditors in relation to the internal control recommendations made, and the suggested actions will be implemented during the 2016/17 financial year.

4 Potential Impact on Objectives

- 4.1 The report is for information, and has no impact on objectives.

5 Finance and Other Resources

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

6 Legal

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

7 Other Considerations

7.1 Consultation/Community Engagement

The annual accounts were subject to a public inspection period from 1 July 2016 – 11 August 2016, with no objections or enquiries raised.

North East Combined Authority

Governance Committee

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 This report has no links to the Local Transport Plans.

10 Appendices

10.1 Appendix 1: Annual Audit Letter 2015/16
Appendix 2: Management letter of representation 2015/16

11 Contact Officers

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

12 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓

North East Combined Authority

Governance Committee

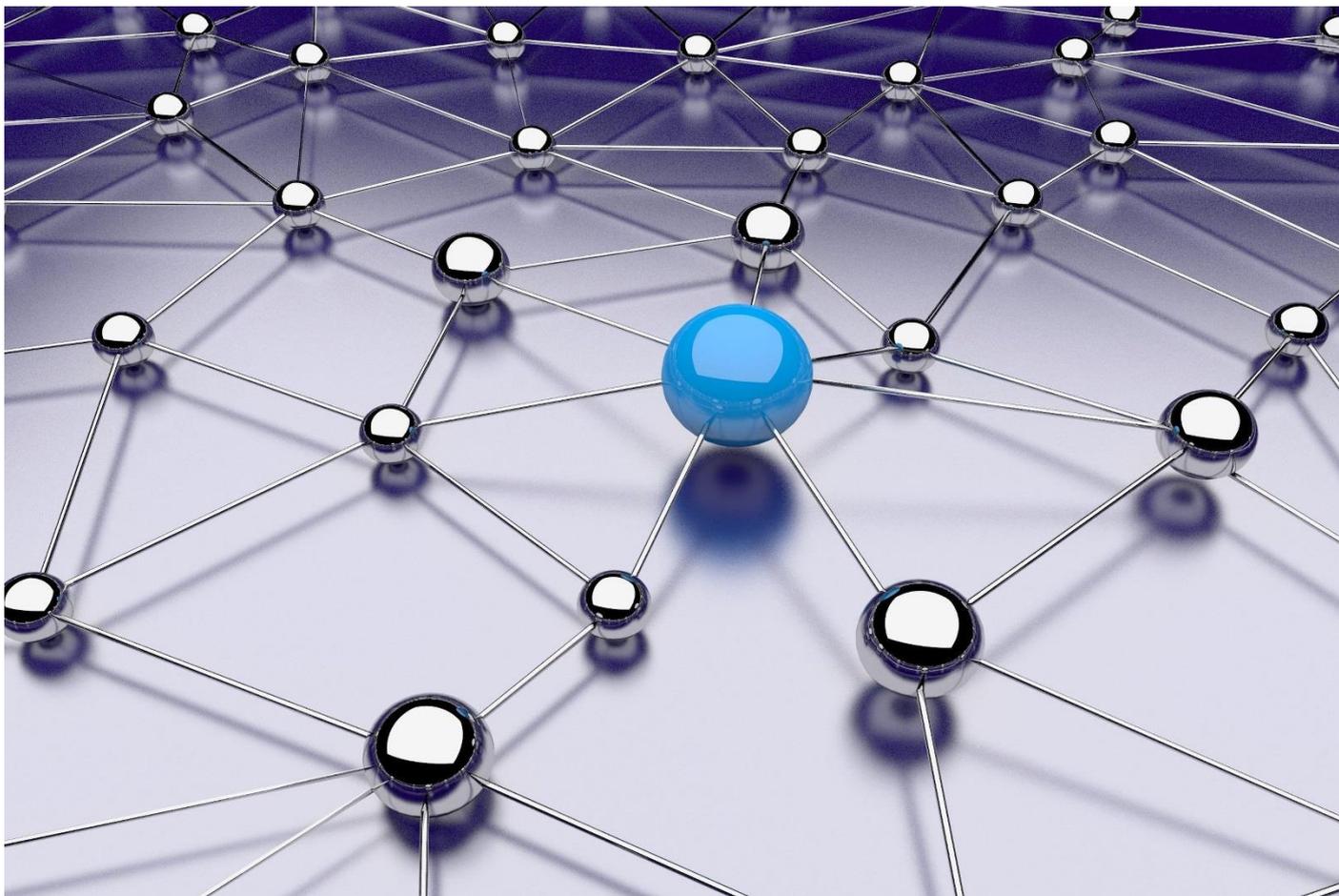
- Chief Finance Officer ✓

13 Glossary

North East Combined Authority

Annual Audit Letter 2015/16

October 2016



Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

October 2016

North East Leadership Board
North East Combined Authority
Quadrant
Cobalt Business Park
The Silverlink North
North Tyneside
NE27 0BY

Dear Members

Annual Audit Letter 2015/16

I am pleased to present our Annual Audit Letter for the 2015/16 audit year. The purpose of this document is to summarise the outcome of the external audit of the North East Combined Authority's 2015/16 financial statements and our review of your arrangements for securing economy, efficiency and effectiveness (VFM).

We carried out our audit in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Local Audit and Accountability Act 2014.

I would like to express my thanks for the assistance of the finance team as well as management, the Leadership Board and the Governance Committee.

If you would like to discuss any matters in more detail, please do not hesitate to contact me on 0191 383 6314.

Yours sincerely

Cameron Waddell

Partner
Mazars LLP

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01 Key messages

In 2015/16, our audit of the North East Combined Authority (the Authority) was made up of two elements:

- auditing your financial statements, including a review of the Governance Statement; and
- assessing your arrangements for achieving value for money (VfM) in your use of resources.

We reported the detailed findings from our audit work to the North East Leadership Board (as those charged with governance) in our Audit Completion Report and follow up letter, and to the Governance Committee.

The key conclusions for each element are summarised below.

Audit of the financial statements

We issued an audit report including an unqualified opinion on the Authority's financial statements on 30 September 2016.

During the course of the audit we did not encounter any significant difficulties and we had the full co-operation of management. Further details are set out in section 02.

We would like to highlight the support we received from staff in undertaking our work.

Value for money

We carried out our work in line with updated National Audit Office guidance and concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We therefore issued an unqualified value for money conclusion on 30 September 2016.

Assurance to the National Audit Office

We issued our report to the National Audit Office on the Authority's Whole of Government Accounts (WGA) return on 19 October 2016. There were no matters to report.

Our other responsibilities

As the Authority's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

Certificate

Following completion of our work on WGA we issued our certificate, closing this year's audit, on 19 October 2016.

02 Financial statements

Audit of the financial statements

We audited the Authority's financial statements in line with auditing standards and we reported the detailed findings of the audit to the Authority's Leadership Board on 20 September 2016. We issued an update letter along with our audit report including an unqualified opinion on the Authority's financial statements on 30 September 2016.

The draft financial statements presented to us for audit were of good quality, as were the working papers.

Our audit testing of Property, plant and equipment identified an issue with one asset, with a value of £3.7 million, where the lease had expired however the asset had not been de-recognised in the financial statements.

Other matters identified were not significant in nature, relating mainly to disclosures or minor typographical errors. All of these errors were amended by management.

Our work on the Authority's accounts is designed to provide reasonable assurance that they are free from material misstatement. In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We determined overall materiality to be £4.6 million (being 2% of Group gross revenue expenditure), with a clearly trivial threshold of £138,000 below which identified errors will not usually be reported. We also set lower materiality values for accounting entries we consider to be more sensitive, for example, senior officer's remuneration.

We updated our materiality calculation when we received the draft accounts and set the overall level at £6 million (being 2% of Group gross revenue expenditure) with a clearly trivial threshold of £179,000. Appendix A provides more information on our approach.

Having considered the risks of material misstatement, we identified three areas of significant risk. Our findings in these areas are summarised below:

Management override of controls

Description of the risk

In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits

How we addressed this risk

Our testing strategy included:

- reviewing material accounting estimates, which may be subject to management bias, included in the financial statements;
- consideration and review of unusual or significant transactions outside the normal course of business; and
- testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements

Audit conclusion

Our work provided the assurance we sought and did not highlight any material issues.

Revenue recognition (in relation to Tyne Tunnel tolls and grant income)

Description of the risk

Revenue recognition was identified as a significant risk due to:

- cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and
- 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.

How we addressed this risk

We addressed this risk through performing audit work over:

- the design and implementation of controls management had in place to ensure income was recognised in the correct period;
- cash receipts around the year end to ensure they had been recognised in the right year;
- the judgements made by management in determining when grant income was recognised; and
- for major grant income, obtaining counterparty confirmation.

Audit conclusion

Our work provided the assurance we sought and did not highlight any material issues.

Pension Estimates (IAS 19) – Group level only

Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we addressed this risk

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

- evaluated the management controls you had in place to assess the reasonableness of the figures provided by the Actuary; and

- considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.

Audit conclusion

Our work provided the assurance we sought and did not highlight any material issues.

Annual Governance Statement

The aim of the Annual Governance Statement is to give an overview of the governance arrangements in place during the year as well as any potential significant governance issues arising.

We reviewed the Annual Governance Statement to see whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Authority. We found no areas of concern to report in this context.

Weaknesses in internal control

We identified three internal control issues. Our findings and recommendations are set out below.

Finding	Recommendation
Service Level Agreement (SLA) with Newcastle Council is not up to date	Given the services that the Council provides to the Authority, the Authority should ensure that the SLA is up to date.
Lack of formal loan agreements with Nexus	The Authority has lent Nexus £45.2 million. Whilst both parties fully understand the terms of the loan and subsequent repayments, there is no formal agreement in place. Existing arrangements would be strengthened by introducing formal agreements between both parties.
Lack of detailed assets register to support land & buildings and infrastructure assets in the balance sheet	The Authority should further strengthen the asset register that is currently in place.

Certificate

We issued our certificate, closing this year's audit, on 19 October 2016.

03 Economy, efficiency and effectiveness

We are required to conclude whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:

'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

The three sub-criteria are set out below.

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

The tables below summarise our findings in respect of the three sub-criteria applicable to the Authority specified by the NAO.

Informed decision making

Proper arrangements	Arrangements at the Authority	Audit Assurance obtained?
<p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</p>	<ul style="list-style-type: none"> • 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. • In relation to officer support, there is now a Head of Service along with an Interim Chief Finance Officer. In addition there is an Interim Monitoring Officer who is not an employee of the authority but the service is provided by the Head of Law & Governance, North Tyneside Council, under a Service Level Agreement. These governance arrangements help to ensure that no one party within the Authority is able to unduly influence others. • Constitution in place, and which is available on the Authority's website. • Governance committee in place to provide challenge • No indicators of inappropriate governance arrangements. 	<p>Yes</p>
<p>Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.</p>	<ul style="list-style-type: none"> • Performance monitored and reviewed, and regular reporting of financial and performance information. • Financial Plan is in place and although only a one year plan this is deemed appropriate given the ongoing uncertainty surrounding NECS's future role. 	<p>Yes</p>
<p>Reliable and timely financial reporting that supports the delivery of strategic priorities.</p>	<ul style="list-style-type: none"> • Performance monitored and reviewed, and regular reporting of financial and performance information. • MTFP updated routinely, as above. 	<p>Yes</p>
<p>Managing risks effectively and maintaining a sound system of internal control.</p>	<ul style="list-style-type: none"> • Risk register and risk management arrangements in place. Risks reported to Governance Committee and regular reporting by Internal Audit. • Annual governance statement prepared, reviewed and approved. 	<p>Yes</p>

Sustainable resource deployment

Proper arrangements	Arrangements at the Authority	Audit Assurance obtained?
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	<ul style="list-style-type: none"> Financial and performance reports demonstrate a history of achieving financial targets. Arrangements in place for the Financial Plan to be updated as appropriate. 	Yes
Managing and utilising assets effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> Capital programme in place which had been increased significantly on previous years due to the commencement of the Local Growth Fund Programme. One year Financial Plan in place as per above 	Yes
Planning, organising and developing the workforce effectively to deliver strategic priorities.	<ul style="list-style-type: none"> Relevant HR policies and procedures in place Very experienced officer team in place 	Yes

Working with partners and other third parties

Proper arrangements	Arrangements at the Authority	Audit Assurance obtained?
Working with third parties effectively to deliver strategic priorities.	<ul style="list-style-type: none"> the Authority 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. The Authority supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities. The NELEP board includes 18 representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven the Authority councils are members of the NELEP and the Chair of the NELEP is a member of the Combined Authority. The Combined Authority provides the formal accountability arrangements for the enterprise partnership. 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 	Yes
Commissioning services effectively to support the delivery of strategic priorities.		
Procuring supplies and services effectively to support the delivery of strategic priorities.		

Annual Governance Statement

Our review of your Annual Governance Statement has not identified any risks for our value for money conclusion.

Work of other regulatory bodies or Inspectorates

We are not aware of any relevant work which impacts upon our value for money conclusion.

Overall assessment

Having gathered evidence on the Authority's arrangements for each criterion we conducted a 'reality check', building upon our existing knowledge of the Authority and considering the robustness of our assessment by referring to:

- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Achievement of performance and other targets	No issues identified.
Performance against budgets and other financial targets	The Authority has achieved relevant targets.

Overall conclusion

Having completed our assessment, and having carried out a 'reality check', we concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 30 September 2016.

04 Future challenges

The Authority has a number of financial challenges over the next two years which will need to be carefully managed. Examples of these are:

- the creation of the Local Growth Fund programme which the Authority is leading which is hoped will help create jobs and apprenticeships through improved training and better transport;
- working closely with the North East Local Enterprise Partnership (NELEP) and the wider business community to deliver the Strategic Economic Plan for the North East which has led to ten new enterprise zone sites starting in 2017; and
- joint work with NELEP to secure a £120 million North East extension to the JEREMIE access to finance for business fund, which is due to start in 2017.

Our 2016/17 audit will focus on the risks that these challenges present to the Authority's financial statements and its ability to maintain proper arrangements for securing value for money.

We will continue to work with finance officers to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. We will also work with them to plan for the forthcoming technical challenges that finance officers face around changes in the production and format of the statement of accounts.

05 Fees and closing remarks

We can confirm the final audit fee for 2015/16 was £24,298 plus VAT. We did not undertake any non-audit work in 2015/16.

We have discussed and agreed this letter with officers and will issue it to the North East Leadership Board (as those charged with governance), and present it to the Governance Committee on 6 December 2016.

During the audit year we have continued to support the Authority in other ways, including attendance at the Governance Committee where we inform the Committee about progress on the audit, report our key findings and update it about developments in the sector and the wider environment, and hosting events for staff, such as our accounts workshops, or more focused Accounts update sessions, as appropriate.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the Authority during the year, which are summarised below.

Report	Date issued
2015/16 Audit Fee Letter	April 2015
Audit Strategy Memorandum	March 2016
Progress reports to Joint Independent Audit Committee	To each meeting
Audit Completion report, and follow up letter	September 2016
Auditor's Report (opinion, VfM conclusion and certificate)	September 2016
Annual Audit Letter	October 2016

The Authority has continued to take a positive and constructive approach to our audit and I wish to thank it and the Governance Committee for their support and co-operation throughout the year. We would also like to record our appreciation for the assistance and co-operation provided to us during our audit by finance staff.

We are committed to supporting the Authority to move forward with clarity of purpose and strong governance and accountability arrangements. We will meet with the officers to identify learning from the 2015/16 audit and will continue to share our insights from other client and relevant knowledge from the wider public and private sector.

Cameron Waddell
Partner
October 2016

Appendix A – Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

We considered materiality whilst planning and performing our audit.

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

In 2015/16 we set materiality at the planning stage at £4.6 million (2 per cent of Group gross revenue expenditure) with a clearly trivial threshold of £138,000 below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, related party transactions, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £6 million with a clearly trivial threshold of £179,000 below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.

Should you require any further information, please do not hesitate to contact:

Cameron Waddell
Partner

D: +44 (0)191 383 6314

E: cameron.waddell@mazars.co.uk

Address:

The Rivergreen Centre
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DH1 5TS

T: +44 (0)191 383 6314

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This Annual Audit Letter is prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies 2015-16’ issued by Public Sector Audit Appointments Ltd. It is addressed to the North East Leadership Board as ‘those charged with governance’. We, as appointed auditor, take no responsibility to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of partners’ names is available for inspection at the firm’s registered office, Tower Bridge House, St Katharine’s Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

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The person dealing with this matter is:

Paul Woods
North East Combined Authority
Quadrant
Cobalt Business Park
The Silverlink North
North Tyneside
NE27 0BY

Phone: 07446936840

Email: paul.woods@northeastca.gov.uk

North East Combined Authority - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for the North East Combined Authority (the Authority) for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Authority and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and

International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Authority's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Authority has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately

accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2015/16 in relation to the Authority's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Authority will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Chief Finance Officer

Date...29/09/2016

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North East Combined Authority

Governance Committee

Date: 6 December 2016

Subject: Invitation to opt into the national scheme for auditor appointments

Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to set out the options available for auditor appointments from 2018/19 onwards and the invitation received from Public Sector Audit Appointments to opt-in to a national scheme, and seek the views of Governance Committee on preferred options which would be presented to the Leadership Board.

Recommendations

The Committee is recommended to receive the report for information and provide views on which of the three options is preferred to form a recommendation to be put before the Leadership Board.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The Authority's current external auditors (Mazars) were appointed under the current audit contracts let by the Audit Commission before it closed. The current contracts run until 2017/18 and are managed by Public Sector Audit Appointments Limited (PSAA), a not-for-profit company established by the Local Government Association (LGA).
- 1.2 Auditor appointments for the audit of the 2018/19 accounts must be made by 31 December 2017. Following the abolition of the Audit Commission, the responsibility for auditor appointments now lies with authorities themselves. They can exercise this responsibility independently and procure their own auditors individually, or opt-in to a national scheme for appointments.
- 1.3 PSAA have been specified by the Secretary of State for Communities and Local Government as an 'appointing person' for principal local government bodies. They will make auditor appointments to any principal local government bodies that choose to opt into the national appointment arrangements.

2 Proposals

2.1 Option 1 – National Appointment Scheme

The letter, prospectus and frequently asked questions attached to this report as appendices set out further details about the national appointment scheme option.

- 2.2 The decision to opt-in must legally be made by the Leadership Board, but it is appropriate for Governance Committee to consider the proposals and make recommendations to the Leadership Board under its terms of reference.
- 2.3 This option has the advantage of the minimum resource implications for the Authority. Procuring audit contracts on a large scale should deliver economies of scale to keep audit fees competitive. The costs of PSAA would be recovered through the scale fees paid by audited bodies. All contract management and independence issues would be dealt with by PSAA. However, although authorities will be consulted on proposed appointments, there is less opportunity to influence the decision than if participating in a local scheme or appointing individually.

North East Combined Authority

Governance Committee

2.4 Option 2 – Local Appointment Scheme

Some authorities within the NECA area have expressed a wish to work together on a regional basis to establish an auditor panel and appoint auditors on this basis. Proposals are subject to further discussion by all local authorities in the region, and the views of NECA Governance Committee would be welcomed.

- 2.5 This option has the advantage of sharing the resourcing burden between authorities and widening the pool of available participants in an Appointment Panel which would be required. Working on a regional basis would allow the Authority to have input into the decision of which firm was appointed. However the economies of scale may not be as significant so there may be higher costs or resource implications for NECA and it is as yet unclear how many authorities in the region may wish to participate.

2.6 Option 3 – Individual Appointment

The final option is for the Authority to appoint its own auditors independently. This option would give the Authority control over its own decision of which firm to appoint. However there would be cost and resource implications to fall on the Authority in terms of procurement and ongoing management of the contract. CIPFA and DCLG have produced guidance which sets out the requirements of audit panels, which may prove quite onerous for an Authority such as NECA to operate on an individual basis.

3 Next Steps

- 3.1 A report, including the views of Governance Committee, will be presented to the Leadership Board at its meeting in January for decision. Acceptance of the invitation to opt-in to the national scheme would be required to be returned to PSAA by 9 March 2017. Should this take place, the timetable for the new arrangements is as set out in the letter attached as Appendix 1. A decision to join a local arrangement would be subject to a timetable as yet to be determined, but all auditor appointments for 2018/19 must be made by 31 December 2017 and follow proper procurement practices. This would also apply should the Authority wish to appoint its own auditors independently.

4 Potential Impact on Objectives

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

North East Combined Authority

Governance Committee

5 Finance and Other Resources

5.1 The financial and resource implications are set out in the body of the report.

6 Legal

6.1 The Local Audit and Accountability Act 2014 sets out the requirements and processes for the appointment of auditors to local authorities and similar public bodies. The option selected by the Authority for appointing its auditors must meet the requirements of the Act.

7 Other Considerations

7.1 Consultation/Community Engagement

There are no specific consultation or community engagement implications arising from this report.

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 Local Audit and Accountability Act 2014

9 Links to the Local Transport Plans

9.1 There are no specific links to the local transport plans arising as a result of this report.

North East Combined Authority

Governance Committee

10 Appendices

10.1 Appendix 1 – Invitation letter from Public Sector Audit Appointments

Appendix 2 – Developing the option of a national scheme for local auditor appointments

Appendix 3 – Frequently Asked Questions

11 Contact Officers

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

12 Sign off

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

13 Glossary

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27 October 2016

Email: appointingperson@psaa.co.uk

Helen Golightly
North East Combined Authority
Quadrant
The Silverlink North Cobalt Business Park
North Tyneside NE27 0BY

Copied to: Paul Woods, Chief Finance Officer, North East Combined Authority

Dear Ms Golightly

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

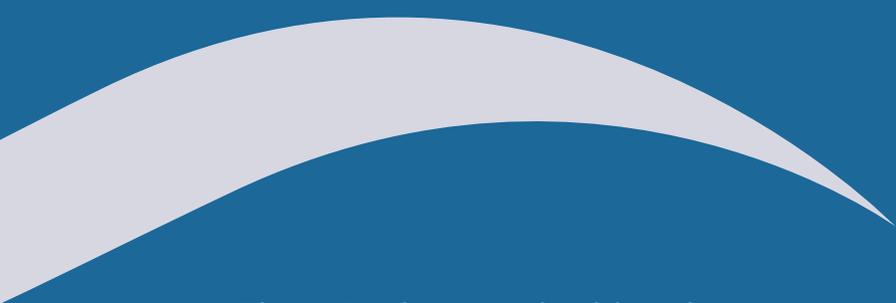
We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

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Developing the option
of a national scheme for
local auditor appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at [**generalenquiries@psaa.co.uk**](mailto:generalenquiries@psaa.co.uk)

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

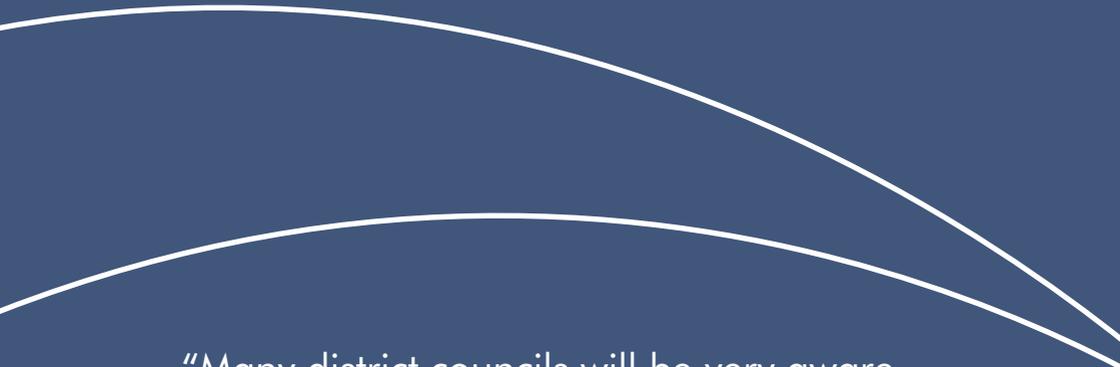
The LGA supported PSAA's successful application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA has been selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.



“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers’ Society (PACCTS)

The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,
Fire Finance Network

PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

BOARD MEMBERS

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

CHIEF OFFICER

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of
Finance and Resources,
Staffordshire County Council

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www.psaa.co.uk



Public Sector
Audit Appointments

Appointing person: Frequently asked questions (updated 27 October 2016)

Question	Response
<p>1. What is an appointing person and what bodies are eligible to opt in?</p>	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. PSAA is a not-for-profit company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission. The 'appointing person' is sometimes referred to as the sector-led body.</p> <p>Eligible bodies are only those principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities (covering elected regional mayors), national park authorities, conservation boards, PTEs, waste authorities, and the GLA and its functional bodies. Smaller authorities (such as parish councils) and NHS bodies, including accountable care organisations, are not eligible to opt in.</p> <p>A list of 493 local government bodies currently eligible for the appointing person scheme is available on the appointing person page of our website (http://www.psa.co.uk/supporting-the-transition/appointing-person/).</p>

Question	Response
<p>2. When will invitations to opt in be issued?</p>	<p>The invitation to opt in was issued on 27 October 2016 with a closing date for acceptance of 9 March 2017. This allows considerably longer than the statutory minimum period of eight weeks, for the requirement under the regulations that authorities must make the decision to opt in at a full council meeting. As corporations sole, the full council requirement does not apply to police and crime commissioners.</p> <p>The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities and confirm appointments before the 31 December 2017 deadline to appoint auditors for the following financial year.</p> <p>In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our timetable means that we will need to start preparing tender documentation early in 2017, so we will need to know which authorities have opted in.</p>
<p>3. How do we have to make the decision to accept the invitation to opt in?</p>	<p>In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.</p>
<p>4. Can we join after it has been set up or do we have to join at the beginning?</p>	<p>One of the main benefits of an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the</p>

Question	Response
	<p>economies of scale we are likely to achieve. This will not prevent authorities from applying to join the appointing person scheme in later years (and PSAA must agree to the request unless there are reasonable grounds to refuse), but they will need to make their own arrangements to appoint an auditor in the interim, which will include establishing an auditor panel. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe, that is by 9 March 2017.</p>
<p>5. Will membership be free for existing members of the LGA?</p>	<p>The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members.</p>
<p>6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?</p>	<p>We have established a stakeholder advisory panel which will comment on our proposals. Members of the panel are drawn from representative organisations for councils, police and fire bodies. The first meeting of the group was held on 30 September 2016. Further meetings are scheduled for 23 November 2016, 26 January 2017 and 25 May 2017.</p> <p>PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in</p>

Question	Response
	<p>comments and observations to PSAA by emailing appointingperson@psaa.co.uk and via the LGA and their principal advisors.</p>
<p>7. Will there be standard contract terms and conditions?</p>	<p>The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel (see Q6).</p>
<p>8. What will be the length of the contracts?</p>	<p>The length of contract between PSAA and firms will be five years.</p>
<p>9. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?</p>	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit.</p> <p>Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish.</p>
<p>10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?</p>	<p>PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.</p>

Question	Response
<p>11. Will the price be fixed or will there be a range of prices?</p>	<p>The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to opted-in authorities after all costs have been met.</p>
<p>12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?</p>	<p>PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.</p> <p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 and in compliance with the Ethical Standards issued by the Financial Reporting Council to ensure that every auditor appointment it makes passes this test. We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.</p>

Question	Response
<p>13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?</p>	<p>The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.</p>
<p>14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?</p>	<p>The number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel.</p> <p>PSAA is developing a procurement strategy which may include a limit on the total business available to any one firm.</p> <p>One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:</p> <ul style="list-style-type: none"> • firms have a regional presence; • greater continuity of staff input; and • a better understanding the local political, economic and social environment.
<p>15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?</p>	<p>PSAA will organise the contracts to maximise the number of firms appointed nationally. The minimum number of audit firms is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the</p>

Question	Response
	FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.
16. What will be the process to feed in opinions from customers of current auditors if there are issues?	PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.
17. What is the timetable for set up and key decisions?	<p>We expect the key points in the timetable to be broadly:</p> <ul style="list-style-type: none"> • establish an overall strategy for procurement - by November 2016; • achieve 'sign-up' of opted-in authorities - by 9 March 2017; • invite tenders from audit firms - by April 2017; • award contracts - by 30 June 2017; • consult on and make final auditor appointments - by 31 December 2017; and • consult on, propose audit fees and publish fees - by 31 March 2018.
18. What are the terms of reference of the appointing person?	PSAA is a not-for-profit company wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person going forward rather than a transitional body which has overseen the transition from the Audit Commission to the new appointing person arrangements.

Question	Response
<p>19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?</p>	<p>Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.</p>
<p>20. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?</p>	<p>PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the Local Audit and Accountability Act 2014, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of the firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register, meaning that small local firms will not be eligible to be appointed to local public audit roles.</p> <p>PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. PSAA will take a close interest in feedback from opted-in bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.</p>

Question	Response
<p>21. In what circumstances can an auditor be changed during the five year opt-in period, and how does this differ from locally procured arrangements?</p>	<p>The main circumstances in which PSAA will consider changing an auditor appointment during the five year compulsory appointing period are either for independence reasons, for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements.</p> <p>An authority appointing its own auditor will find it more difficult to change their auditor appointment during the contracted period, as this would require the authority to conduct a new selection and procurement exercise. The appointing person scheme will therefore provide more flexibility for opted-in bodies.</p>
<p>22. How will audit fee levels be set for each individual body with the objective of recovering PSAA costs at the aggregate level?</p>	<p>PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as currently evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.</p> <p>2018/19 scale fees will be determined by the prices achieved in the auditor procurement that PSAA will undertake during the early part of 2017. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable in March 2018. Where more or less work is required than is envisaged in the scale fee, a fee variation process will apply. The variations process will ensure that fees for additional work</p>

Question	Response
	cannot be invoiced until agreed with the audited body and approved by PSAA.
23. What will be the future arrangements under the appointing person scheme for certifying grant claims?	<p>PSAA's audit contracts from 2018/19 will not cover certification work. PSAA has no power under the Local Audit and Accountability Act 2014 to make certification arrangements, and its arrangements will apply only to opted-in bodies. Any certification work required by grant paying government departments will need to be undertaken using a tripartite agreement between an audited body, an audit firm and the grant paying body, under instructions prepared by the grant paying body.</p> <p>The Department for Work and Pensions is developing its arrangements for housing benefit subsidy claim certification from 2018/19 on this basis. Where applicable, local authorities will appoint an auditor for this certification work (for which an auditor panel is not required) and may if they wish choose to use the same auditor appointed by PSAA for the audit of the accounts, if they are opted-in bodies.</p>
24. How will the appointing person scheme deal with an authority that is dissatisfied with its auditor and wants a change (e.g. because of quality, relationships, or a conflict of interest)?	<p>As with the current arrangements, where an authority is dissatisfied with its auditor, concerns should be raised in the first instance with the firm's Engagement Lead and subsequently with the firm's PSAA Contact Partner (as indicated on communications between the firm and the authority).</p> <p>If the authority is not satisfied with the response of the firm, then the matter should be raised with PSAA.</p>

Question	Response
	<p>As appointing person, PSAA appoints a firm as auditor to an authority. The firm is responsible for nominating an individual to act as the Engagement Leader on the audit of an authority.</p> <p>PSAA will consider changing an auditor appointment in extremis if an authority is dissatisfied, but would expect the authority and the firm to have exhausted all avenues for resolution before doing so. Maintaining the independence of the auditor is an important part of this consideration.</p> <p>PSAA will consider changing an auditor appointment during the five year compulsory appointing periods, if a conflict of interest involving the existing audit firm is identified, or because of the emergence of new joint working arrangements.</p> <p>The appointing person scheme will have the flexibility to provide an audit alternative if required in these cases.</p> <p>PSAA will be monitoring the quality of audit services provided as part of the contractual terms of appointment to be agreed with firms.</p>
<p>25. Will an auditor be able to provide my authority with non-audit consultancy services?</p>	<p>The independence requirements for all auditors within the local public audit regime are the same whether locally appointed, or part of the appointing person regime. These requirements are specified by the Financial Reporting Council in the Ethical Standard and applied to local public audit as determined by the NAO.</p> <p>The services that an auditor can provide are the same, whatever the appointment method.</p>

Question	Response
	<p>As the Appointing Person, PSAA will perform the role otherwise required of an auditor panel to advise the authority on the maintenance of the independence of the auditor [Local Audit and Accountability Act 2014 section 10(1)].</p> <p>PSAA will consider changing an auditor appointment during the five-year compulsory appointing period for independence reasons, if for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements.</p>

North East Combined Authority

Governance Committee

DATE: 6 December 2016

SUBJECT: Internal Audit Progress Report

REPORT OF: Audit, Risk and Insurance Service Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide Members with:

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

RECOMMENDATIONS

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

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1 Background Information

Progress with Delivery of the plan

- 1.1 The 2016/17 audit plan (Appendix 1) was agreed and included 5 pieces of audit work to be delivered by Newcastle City Council, 2 by Nexus and an additional audit of the North East LEP was added to be delivered by Sunderland City Council.
- 1.2 Since the last committee 2 audits have been completed, 1 grant claim has been certified (LGF) and an investigation into a procurement issue relating to a contract was investigated by the Internal Audit Service, these are shown below and detailed in appendix 2.

Assignment	Level of Assurance
Local Growth Fund Grant (LGF)	Compliant with grant criteria
Procurement Investigation	Not applicable
Financial Management	Substantial
Partnerships	Substantial

Implementation of Outstanding Recommendations

- 1.3 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high and medium priority recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The current position as regards outstanding recommendations is detailed below:

	Audit and Recommendation	Lead Officer/ Implementation due date	Progress update
1	Financial Management		
1.1	Information is obtained from across the Councils making up the Combined Authority and there is a risk this fragmentation can reduce effectiveness going forward. (Medium)	Chief Finance Officer Original date - September 2015 Revised date for centralising accommodation and finance systems is March 2017	Following the interim appointment to the Head of Paid Service position more centralised accommodation and finance arrangements will be established. Risks have been mitigated by co-ordination of activity by the Chief Finance Officer.

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

2 Next Steps

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

3 Potential Impact on Objectives

3.1 No direct impact on objectives.

4 Finance and Other Resources

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

5 Legal

5.1 No direct legal implications arising specifically from the report.

6 Other Considerations

6.1 **Consultation/Community Engagement**

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No external consultation or community engagement required.

6.2 Human Rights

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

6.3 Equalities and Diversity

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

6.4 Risk Management

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

6.5 Crime and Disorder

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

6.6 Environment and Sustainability

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

7 Background Documents

7.1 Final Internal Audit Reports

8 Links to Plans in the Policy Framework

8.1 No direct link to the Policy Framework.

9 Appendices

9.1 Appendix 1 – 2016/17 audit plan

9.2 Appendix 2 - Audit Activity since September 2016

10 Contact Officers

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

11 Sign off

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

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

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

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Appendix 2 – Audit Activity since September 2016					
Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
Partnerships	Substantial	-	1	-	-
Audit objectives and scope					
<p>The overall objective of the audit was to assess whether the significant risks in relation to partnerships are adequately and effectively controlled. This was done through the review of the following objectives:</p> <ul style="list-style-type: none"> • Significant partnerships are held on a Partnership Register and clearly align with the Authority’s objectives • Formal governance arrangements are in place and key risks have been identified • Performance management arrangements have been established and are monitored to ensure they achieve the Authority’s objectives and represent value for money. 					
Internal Audit work undertaken was as follows:					
<ul style="list-style-type: none"> • Arrangements were discussed with the nominated lead officers for the 4 Partnerships: <ul style="list-style-type: none"> ▪ Transport for the North ▪ East Coast Mainline ▪ Rail North ▪ North East Smart Ticketing Initiative • A review of the 2015/16 Partnership Assurance Statements • A review of the Leadership Boards forward plan, agenda and transport thematic lead update reports, to establish the reporting mechanism for the transport theme • A review of the register of significant partnerships published on the NECA website <p>This audit of significant partnerships did not include the North East Local Enterprise Partnership (NELEP) or TT2, as they are subject to separate audits in the 2016/17 Audit Plan.</p>					
Assurances	Control weaknesses impacting on assurance and recommendations		Opportunities to enhance efficiency and value for money		
Partnership Assurance Statements were completed for the 4 significant partnerships and were supported by appropriate evidence	An updated Partnership Register was agreed by the Economic Directors Group, however this was not taken to the Leadership Board and has not been updated on NECA’s website. (Medium)		None identified		
Regular and comprehensive transport thematic lead update reports are presented to Leadership Board	<p>Recommendation(s)</p> <p>1. To fulfil the Leadership Boards responsibilities as noted within the Constitution, a review of the Partnership Register should be added to the Forward Plan to ensure the register is considered as part of each</p>				

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<p>Risk registers are in place for the most significant partnerships and evidence to show they are regularly reviewed by the partnership</p> <p>For each partnership there is a document which sets out its aims, objectives and governance arrangements</p>	<p>municipal year.</p> <p>2. The most recent version (February 2016) of the Significant Partnerships Register should be uploaded onto the NECA website.</p>	
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Appendix 2 – Audit Activity since September 2016					
Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
Financial Management	Substantial	-	2	1	-
Audit objectives and scope					
<p>The overall objective of the audit was to assess whether significant risks in relation to financial management arrangements are adequately and effectively controlled. This was done through review of the following objectives:</p> <ul style="list-style-type: none"> • There is an adequate set of financial arrangements and regulations in place for the Combined Authority which meet statutory requirements and recommended practice. • Transactions are appropriately approved and accounted for correctly. • Adequate business continuity arrangements are in place for staff and IT systems. • Procedures operate efficiently and provide value for money. 					
Internal Audit work undertaken was as follows:					
<ul style="list-style-type: none"> • Discussions with the Principal Accountant to ascertain the nature of systems and identify the controls operated by management. • Evaluation of current systems and controls through review and testing of the following: <ul style="list-style-type: none"> ○ Review of the NECA Constitution which includes Financial Regulations (Part 5) ○ Sample testing of 5 new appointments including payroll processing ○ Sample testing of 10 invoice payments including ordering arrangements ○ Sample testing of income received, including Levy payments and LGF Grant monies • The audit did not cover arrangements for treasury management, budget monitoring or Tyne Tunnel income 					
Assurances	Control weaknesses impacting on assurance and recommendations		Opportunities to enhance efficiency and value for money		
<p>Financial Regulations and Financial Procedure Notes are in place setting out the high level financial control arrangements.</p> <p>Transactions processed through Newcastle City Council's financial system were appropriately authorised and supported by relevant documents.</p>	<p>1. Formal SLA's are not in place for 2016/17 services provided to the Combined Authority by member authorities (medium).</p> <p>Recommendation</p> <p>The Chief Finance Officer should ensure that formal SLA's are in place for all services provided to the Combined Authority by member authorities for 2017/18.</p>		None		

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	<p>2. No formal contingency arrangements are currently in place to cover the Chief Finance Officer and Principal Accountant (medium).</p> <p>Recommendations</p> <p>The Combined Authority should ensure appropriate formal arrangements are in place to cover all financial positions taking into account future demands, long term absences and supervision requirements.</p>	
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Appendix 2 – Audit Activity since September 2016	
Audit	Assessment
Procurement investigation	Not applicable
Audit objectives and scope	
<p>An internal check established that an error had been made regarding the contract weighting with a procurement exercise. The NECA Chief Finance Officer therefore requested that Internal Audit establish how the error occurred and what lessons can be learnt for future procurement work.</p>	
Background	
<p>The error involved the following:</p> <ul style="list-style-type: none">• Pre contract discussions between commissioning and the client, and the subsequent draft contract specification, set out the agreed contract weighting; 70/30 split in favour of quality over price.• However, the final published contract documentation set out a weighting of 60/40 split in favour of quality; the error was made by the Commissioning Officer when completing the final contract documents.• Contract documentation is signed off by a 2nd commissioning officer, however, this comprises a check of the final documentation only and would not, therefore, have identified a change between draft specification and final contract documents.• The turnaround for the contract was approximately 3 months instead of the preferred / usual 6 month period; this was due to funding deadlines.• An informal sign off meeting between commissioning and the client, at which final contract documents are normally checked, did not take place due to the tight turnaround and pre planned annual leave, however, documents were emailed to the client for final check before publishing. There is no formal sign off by the Client.• Documents were subsequently checked by the client, and some queries raised (evidence of this is provided in email correspondence between the client and commissioning) however, the change in weighting was not picked up.• Tender evaluations were undertaken, and the initial intend to award issued, based on a 70/30 split, details of which were included in the intent to award documents. This was subsequently picked up by the contractor as not being in accordance with the Invite to Tender	

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Control weaknesses impacting on assurance and recommendations

Poor version control had led to the error and therefore a review of document version control, including different means of sharing documents and document changes such as a shared drive is required.

To improve sign off it is recommended that a client checklist / sign off form should be introduced to facilitate the above and ensure that the client is directed to the client / contract specific sections of the contract documentation that require checking.

North East Combined Authority

Governance Committee

DATE: 6 December 2016

SUBJECT: Strategic Risk and Opportunities Register

REPORT OF: Audit, Risk and Insurance Service Manager

EXECUTIVE SUMMARY

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

The Authority's Strategic Risk Register has been reviewed following the decision by Leadership Board not to proceed with a Mayoral Combined Authority.

The risk review has resulted in the register being fully refreshed and closure of the devolution risks.

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

RECOMMENDATIONS

Governance Committee are asked to:

- Review and where necessary challenge the outcomes of the strategic risk review, as well as highlight additional risks that may need to be considered for inclusion
- Acknowledge the new risk which describes the Authority's governance arrangements
- Acknowledge the new operational capacity risk description and increase in risk priority from Amber to Red
- Acknowledge the opportunity and risks which have been closed:
 - Governance Review
 - Devolution
 - Partnerships opportunity

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1 Background Information

- 1.1 Following the Leadership Board's decision not to proceed with a Mayoral Combined Authority and the withdrawal of the devolution deal and agenda, the Authority continues to function under the current operating model. As a result of the devolution agenda being halted a full review of the Authority's Strategic Risk Register has been undertaken.
- 1.2 The risks around Devolution are now closed. The opportunity which monitored the partnership arrangements has also been removed from the register and a new risk around operational capacity and resourcing added. A summary of the closed risks are included at Appendix A
- 1.3 A new risk which describes the Authority's governance arrangements has been included in the risk register. It describes how the future governance of the Authority may no longer be effective following the decision not to proceed with a Mayoral Combined Authority. The risk has been assessed as Red.
- 1.4 The risk which monitors the Authority's operational capacity has also been revised to accurately describe the threat. The risk describes the lack of political commitment, operational capacity and budget to successfully deliver the Authority's objectives. This has resulted in the risk priority increasing from Amber to Red.
- 1.5 The risk which describes the future of European funding has been reviewed and the risk priority has reduced from Red 16 to Red 12. This is as a result of the Government's assurances that key economic development projects funded by European funding will be honoured if they are signed before the Autumn Statement. The Combined Authority and North East Local Enterprise Partnership (NELEP) have also secured £58.5m of JEREMIE 2 grant funding.
- 1.6 Following consultation with the Authority's Statutory Officers, each risk has been assigned to the Interim Head of Paid Service, who will become the Risk Action Manager on behalf of the Leadership Board. They will be responsible for ensuring the risk is regularly reviewed and mitigation activity is successfully delivered
- 1.7 Appendices A and B provide the Committee with details of each risk. The Toolkit at Appendix C is used to determine the risk priority.
- 1.8 The strategic risk register only contains high level risks covering the overall Authority. Specific risks relating to themes within the Strategic Economic Plan, continue to be monitored within the themes. Nexus continue to report to the Transport North East (Tyne and Wear) Sub Committee.

2 Proposals

- 2.1 The Combined Authority will continue to develop the strategic risk register to record, monitor and report the strategic risks to the Governance Committee at 3 monthly intervals, utilising information from officers.

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3 Next Steps

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

4 Potential Impact on Objectives

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

5 Finance and Other Resources

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

6 Legal

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

7 Other Considerations

7.1 Consultation/Community Engagement

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

7.2 Human Rights

There are no Human Rights implications directly arising from this report

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

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

8 Background Documents

- 8.1 There are no background documents

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9 Links to Plans in the Policy Framework

- 9.1 The Risk Management Policy and Strategy and approach to strategic risk management going forward, will support delivery of the Strategic Economic Plan and Local Transport Plans, by acknowledging the biggest threats to their delivery.

10 Appendices

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

11 Contact Officers

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

12 Sign off

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

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

Live Risks		
<p>Governance Arrangements Governance of the Combined Authority may no longer be effective following the decision of the Leadership Board not to proceed with a Mayoral Combined Authority</p>	Red 12	New Risk
<p>European Funding Failure to secure the notional funding previously identified through European Structural Investment Funding Scheme will jeopardise delivery of the Strategic Economic Plan.</p>	Red 12	Risk description updated and risk priority reduced
<p>Operational Capacity and Resourcing The Combined Authority is unable to demonstrate to Government and partners that it has the necessary political commitment and operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p>	Red 16	Risk description updated and risk priority increased

Closed Risks & Opportunities	
<p>Governance Review - Agreement not reached within agreed timescales As part of the Governance Review if full agreement is not reached to the proposed functions and powers included in the draft Scheme by the statutory deadline, this will impact on the decision to create a mayoral Combined Authority.</p>	<p>Risk Closed Devolution not progressing under current proposals</p>
<p>Risk to the current and future devolution of funding, powers and responsibilities Failure to deliver the Devolution agenda, and secure future negotiations with the Government for delegation of further powers and responsibilities, could occur if the Combined Authority (members, officers, and partners) do not continue to strengthen relationships with all stakeholders to develop key regional strategies and delivery plans.</p>	<p>Risk Closed Devolution not progressing under current proposals</p>
<p>Opportunity to strengthen partnerships The need for effective governance and partnership management, supported by clear and timely communications will provide the opportunity to strengthen existing partnerships in the region and beyond. This will encourage the development of new partnerships across the public and private sector helping to drive forward change and successfully deliver the benefits and outcomes of the Devolution Deal across the region.</p>	<p>Opportunity removed Operational Capacity risk includes partnership management</p>

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<p><u>New Risk</u></p> <p>Governance Arrangements</p> <p>Governance of the Combined Authority may no longer be effective following the decision of the Leadership Board not to proceed with a Mayoral Combined Authority.</p>	<p><u>Risk Owner</u> Interim Head of Paid Service</p> <p><u>Risk Score</u></p> <p>Red 12 Likelihood – Medium Impact – Critical</p>
<p>Cause:</p> <p>The decision of the Leadership Board at its meeting on 6th September 2016 not to proceed with the consultation on the devolution deal and the withdrawal of the deal by the Secretary of State could result in potential changes in the membership of NECA and its governance arrangements.</p>	
<p>Impact/Consequence:</p> <p>The Authority may no longer be able to operate under its current governance arrangements, therefore delivery of the Authority's objectives and plans could be adversely affected.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none">• The Constitution covers the current operating model• The Order provides for the existence of the NECA and specifies its current membership and functions• There is an agreed schedule/programme of meetings involving Leaders, Chief Executive's and Economic Directors• Formal decision making committees including Leadership Board, Transport and Governance• The LA7 continue to work together using agreed joint working arrangements i.e. regular meetings of finance, legal and supporting transport and economic development & regeneration committees• A Strategic Partnership Register has been agreed which identifies all partnerships that are entirely or substantially responsible for delivering or managing an outcome for the Combined Authority• The appointment of the Commission for Health and Social Care integration for the North East. Set up by the NHS and NECA to identify opportunities for further collaboration and integration to improve the health and wellbeing of residents and reduce health inequalities across the North East	
<p><u>Next Steps</u></p> <ul style="list-style-type: none">• Identify the potential impacts an alternative devolution deal would have on the current governance and working arrangements of NECA• The Strategic Economic Plan is being refreshed by the NELEP to ensure its priorities remain current, reflecting on the region's economic position• A review of the Autumn Statement, which will be published on 23 November 2016, will be undertaken to consider the impact of future years government funding	

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European Funding Failure to secure the notional funding previously identified through European Structural Investment Funding Scheme will jeopardise delivery of the Strategic Economic Plan.	<u>Risk Owner</u> Interim Head of Paid Service
	<u>Risk Score</u>
	Red 12 Likelihood – Medium Impact - Critical
Cause: Government's plans to release European funding following the referendum result to leave the European Union have changed and the availability of future funding opportunities are more constrained.	
Impact/Consequence: The ability to secure European funding risks damaging local regeneration plans and stalling infrastructure projects, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.	
<u>Controls (already in place)</u> <ul style="list-style-type: none">• Government have given assurances that key projects supporting economic development will be honoured if they are signed before the Autumn Statement• The Combined Authority and NELEP have secured £58.5m of JEREMIE 2 grant funding (part of the European Structural Fund) and the creation of a Special Purpose Vehicle has been established to deliver the projects, supporting small and medium sized enterprises• NELEP have set up a working group of partners to establish the impact of losing European Funding• The Strategic Economic Plan is currently being refreshed to ensure its priorities remain current and in line with the Order and the Scheme. The Plan is aligned to a European Structural and Investment Fund Strategy, to direct the allocation of European Funding 2014-2020 to grow the North East Economy	
<u>Next Steps:</u> <ul style="list-style-type: none">• A review of the Autumn Statement, which will be published on 23 November 2016, will be undertaken to consider the impact of future years government funding.	

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<p>Operational Capacity and Resourcing</p> <p>The Combined Authority is unable to demonstrate to Government and partners that it has the necessary political commitment and operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p>	<p style="text-align: center;"><u>Risk Owner</u> Interim Head of Paid Service</p>
	<p style="text-align: center;"><u>Risk Score</u></p> <p style="text-align: center;">Red 16 Likelihood – High Impact - Critical</p>
<p>Cause:</p> <p>The uncertainty following the withdrawal of the devolution deal has contributed to:</p> <ul style="list-style-type: none"> • The Authority's commitment to secure permanent senior staff and secondment opportunities, resulting in key officer disciplines and resource requirements being at risk. • The Authority's commitment to the scope and objectives being at risk. 	
<p>Impact/Consequence:</p> <p>Without permanent Statutory Officers and recruitment into other officer positions, the Authority will be unable to operate effectively and carry out its statutory/core activities.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The appointment of the NELEP's Chief Operating Officer to the position of Interim Head of Paid Service has further strengthened the partnership arrangements between the NELEP and the Combined Authority • Service Level Agreements continue to provide key officer support to Statutory Officers and Leadership Board • Partners continue to engage through the formal meetings of the Combined Authority and LA7, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels 	
<p><u>Next Steps:</u></p> <ul style="list-style-type: none"> • On behalf of the Leadership Board, Economic Directors Group have put in place a significant programme of work, looking at the impact of Brexit on the economy, Local Authority finances and the region more widely, working with the business community to: <ul style="list-style-type: none"> ▪ Understand the impact on economy, property markets and the labour market ▪ Understand the picture and local intelligence ▪ Understand the impact on inward investment activity ▪ Identify key asks for Brexit negotiations ▪ European funding (levels of spend and issues) ▪ Post EU regeneration funding asks • The Leadership Board will receive a further finance update on the progress of the capital programmes and revenue budget at its meeting on 17 January 2017 • As part of the budget process Chief Executives and the Interim Head of Paid Service will work together to understand and clarify the risks relating to capacity and political commitment 	

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Appendix B

Action plans must be developed for Red and Amber risks

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

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

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopping Page 153	<ul style="list-style-type: none"> Over half the objectives/programmes affected More than one critical objective affected Partners do not commit to the Shared vision 	<ul style="list-style-type: none"> Significant change in partner services Relationship breakdown between major partners and stakeholders Serious impact on delivery of Strategic Investment Plans Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project 	<ul style="list-style-type: none"> Inability to secure or loss of significant funding opportunity (£5m) Significant financial loss in one or more partners (£2m) Significant adverse impact on budgets (£3m – Transport / NELEP; £0.2m Central Budget) 	<ul style="list-style-type: none"> Adverse national media attention External criticism (press) Significant change in confidence or satisfaction of stakeholders Significant loss of community confidence
Significant	<ul style="list-style-type: none"> One or more objectives/programmes affected One or more partners do not commit to shared vision Significant environmental impact 	<ul style="list-style-type: none"> Partner unable to commit to joint arrangements Recoverable impact on delivery of Strategic Economic Plan Major project failure 	<ul style="list-style-type: none"> Prosecution Change in notable funding or loss of major funding opportunity (£2m) Notable change in a Partners contribution Notable adverse impact on budget (£0.5m-£1.5m Transport or NELEP budgets) 	<ul style="list-style-type: none"> Notable external criticism Notable change in confidence or satisfaction Internal dispute between partners Adverse national/regional media attention Lack of partner consultation Significant change in community confidence
Minor	<ul style="list-style-type: none"> Less than 2 priority outcomes adversely affected Isolated serious injury/ill health Minor environmental impact 	<ul style="list-style-type: none"> Threatened loss of partners commitment 	<ul style="list-style-type: none"> Minor financial loss in more than one partner Some/loss of funding or funding opportunity threatened 	<ul style="list-style-type: none"> Failure to reach agreement with individual partner Change in confidence or satisfaction Minor change in community confidence
Insignificant	<ul style="list-style-type: none"> Minor effect on priorities/service objectives Isolated minor injury/ill health No environmental impact 		<ul style="list-style-type: none"> Isolated/minor financial impact in a partner organisation 	

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