



Governance Committee

Friday, 11th December 2015 at 2.00 pm

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

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AGENDA

	Page No
1. Apologies for absence	
2. Declarations of Interest	
Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer).	
Please also remember to leave the meeting where any personal interest requires this.	
3. Minutes of Previous Meeting held on 11 September 2015	1 - 4
4. Regional Meeting of Chairs and Deputy Chairs of Standards and Governance Committees - 9 October 2015	5 - 8
5. Code of Conduct for Members - Declaration of Interests and Gifts and Hospitality	9 - 14
6. Annual Audit Letter 2014-15	15 - 30
7. NEXUS Annual Audit Letter 2014/15	31 - 38
8. External Audit Progress Update	39 - 52
9. Draft Budget 2016/17 and Transport Levies	53 - 118

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| 10. | Quality Contracts Scheme (QCS) Update | 119 - 128 |
| 11. | Strategic Risk and Opportunities Register | 129 - 138 |
| 12. | Exclusion of Press and Public | |
| | Under section 100A and Schedule 12A Local Government Act 1972 because exempt information is likely to be disclosed and the public interest test against disclosure is satisfied. | |
| 13. | Internal Audit Progress Report | 139 - 154 |
| 14. | Date and Time of Next Meeting | |
| | Friday, 1 April 2016 at 2.00pm at Newcastle City Council | |

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To: All Members

North East Combined Authority, Governance Committee

11 September 2015

(2.00 pm - 3.15 pm)

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

Present:

Independent Members: M Scrimshaw (Chair), G Clark

Councillors: B Coates, A Dale, G Hobson, J O'Shea, and H Trueman
D Jones and M Williams (reserve members)

11 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Bell and Franks. The Committee was advised that their respective substitutes, Councillors Williams and Jones were in attendance.

12 DECLARATIONS OF INTEREST

None

13 MINUTES OF PREVIOUS MEETING HELD ON 10 JULY 2015

RESOLVED – That the Minutes of the previous meeting held on 10 July 2015 be agreed as a correct record, subject to the following amendments and then be signed by the Chair:

- Removing G Clark from the list of Councillors and separately listing as an Independent Member.
- Correctly spelling G Clark surname, 1st paragraph of Minute 1.
- Change the wording in 2nd paragraph, 1st sentence of Minute 1 from 'NEXUS Board' to 'NEXUS Audit Committee'.

P Woods referred to the next Agenda Item - Annual Report and Accounts and suggested that the Committee may like to consider the External Auditors report and their views prior to considering this report. The Committee agreed.

14 EXTERNAL AUDITORS REPORT

Submitted: Report by the 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 2014/15 Audit.

Paul Thompson and N Rayner, representative from External Auditor introduced the report, summarising the key aspects. It was pointed out that the overall process of auditing the accounts had been good and Deloitte wished to thank the management team for their assistance and co-operation during the course of their audit work.

During discussions the Committee raised concerns around the time taken to receive confirmation letters from Lloyds Bank, asking for an update to be provided on how much was charged for these letters and how long Lloyds Bank took to issue the letters. The Committee was informed that the annual request could be made more promptly next year and a response be chased more heavily.

Councillor Jones arrived at meeting 2.35

Clarification was provided on the grant and loan criteria, with members being informed that if they had any queries about the terms and conditions of the loans they should be directed to P Woods. Assurances were provided about the future process for countersign off of the journals and about the declaration of interests' framework.

RESOLVED - That the Committee received and noted the report of the External Auditor attached as Appendix 1.

15 **ANNUAL REPORT AND ACCOUNTS**

Submitted: Report by the Chief Finance Officer (circulated on a supplemental agenda in accordance with the Local Government (Access to Information) Act 1985, which presented the final accounts for approval and summarised the findings of the audit.

P Woods introduced the report advising the Committee about the Tyne Tunnel VAT being incorrectly identified; however, action was being taken to recover this amount and it would be reflected in the 2015-16 accounts. He thanked Eleanor Goodman, Newcastle City Council and Paul Dixon, Sunderland who had worked extremely hard on preparing the accounts. He confirmed that as a result of comments raised during the External Auditors Report, the balance figures would be included in the opening information when submitted to the Leadership Board for approval.

In response to comments raised, the Committee was informed that:

- The loan and grant amounts were included in the accounts but to a layperson they were not perhaps obvious. The details on this would be circulated to members for information.
- The officers had confidence in the recoverability of the long term debt through the regular scheduled payment agreements.

The Committee received and noted the additional paper circulated, which provided some overview information around NECA and would supplement the Annual Report and Accounts.

RESOLVED - That the Annual Report and Accounts 2014/15, be recommended for approval and sign-off to the Leadership Board.

16 **ANNUAL GOVERNANCE STATEMENT**

Submitted: Report by Audit, Risk and Insurance Service Manager (Newcastle City Council) (previously circulated and a copy attached to official minutes), which

presented the Annual Governance Statement for approval for inclusion in the annual accounts.

P Slater introduced the report. During discussions members were informed about progress on the risk register. Reference was made to Appendix 1 – Governance Framework, *‘developing the capacity of members and officers to be effective’*, with comments raised that members had not received any training as a NECA member. A comment was made that it should be determined whether there was a need for NECA members to have specific training around their strategic roles.

RESOLVED – That the Annual Governance Statement be included in the annual accounts.

17 **INTERNAL AUDIT PROGRESS REPORT**

Submitted: Report by Audit, Risk and Insurance Service Manager (Newcastle City Council) (previously circulated and a copy attached to official minutes), which provided a progress update against the delivery of the 2015/16 internal audit plan; information on the implementation of audit recommendations; and an Audit Charter, which detailed the roles and responsibilities of internal audit within the Combined Authority, seeking Committee approval.

P Slater introduced the report. He confirmed that although there were a number of audits to be completed during October and November, it would be manageable.

A request was made for the Committee to be provided with a link to the NECA website where the Combined Authority’s Partnership schedule was published.

A brief discussion was held around the varied approaches that all the local authorities took in relation to the declaration of interests’. Comments were raised around developing some consistency and to ensure NECA partners were involved in the process. The Committee was informed that the NECA declaration of interests’ form matched best practice.

Clarification was sought on some of the actions against the current position on the recommendations raised in 2014/15. As a result of some confusion, it was suggested that for future meetings, the presentation of information (e.g. sub numbering/bullet points) be examined, to ensure clarity about actions.

RESOLVED – That:

- (i) The internal audit activity to date be received and noted.
- (ii) The Audit Charter be approved.

18 **DATE AND TIME OF NEXT MEETING**

Friday 11 December 2015 at 2pm at Gateshead Council.

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North East Combined Authority

Governance Committee

Date: 11 December 2015

Subject: Regional Meeting of Chairs and Deputy Chairs of Standards and Governance Committees - 9 October 2015

Report of: Interim Monitoring Officer

Executive Summary

The purpose of this report is to update the Committee on the most recent regional meeting of the Chairs and Vice Chairs of Standards Committee and Independent Persons held on 9 October 2015.

Recommendations

It is recommended that the Committee notes this report.

North East Combined Authority

Governance Committee

1 Background Information

1.1 As the Committee will recall, the first regional meeting of Chairs and Deputy Chairs of Standards Committees and Independent Persons was held in June 2013. The fifth and most recent meeting was hosted by Gateshead Council on 9 October 2015. Most local authorities in the region were represented. The Minutes of the Meeting are attached at Appendix 1.

1.2 The discussion included the following items:

(i) Dealing with persistent complainants

One authority reported that it had received a substantial number of complaints from the same person and was keen to explore how other authorities dealt with that issue.

Some of the other authorities confirmed they had had a similar experience. It was generally agreed that each complaint should be dealt with in accordance with the authority's assessment criteria and these should generally "filter out" those complaints which had no merit so that they could be disposed of quickly. If a complainant continued to make purely vexatious complaints, then it would be for the Monitoring Officer and the Authority to decide how to deal with that complainant in the same way as it would deal with any other person who made vexatious complaints (ie not necessarily under the standards regime).

(ii) Dealing with "persistent offenders"

Some authorities reported that some members had had a number of complaints against them upheld but the current sanctions regime did not deter them from committing further breaches of the code of conduct. It was acknowledged that the lack of effective statutory sanctions had been an issue of concern since the new regime was implemented. It was agreed that the Monitoring Officer Group would liaise to make joint representations to DCLG. Those present agreed to supply evidence (anonymised where required) of the problems experienced to support these representations. It was also agreed that the letter to DCLG could be copied to local MPs in an effort to seek their support.

(iii) Training for Standards Committee Members/Independent Persons

It was proposed that there should be regional training for standards committee members to deliver a common approach and economies of scale. Any such training would, of course, need to note the differences in the code of conduct adopted by each authority. This proposal was welcomed. Similarly, it was also proposed that regional training for Independent Persons would be beneficial. This training could be largely combined with the training for standards committee members, given that it would relate to similar issues and would also help committee members to gain a better insight into the role of independent persons and *vice versa*, although the training would obviously need to recognise the specific responsibilities of each role.

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The Monitoring Officer Group will bring a proposal to the next regional meeting.

The next meeting will be held in approximately six months' time in Sunderland.

2 Proposals

2.1 There are no proposals in this report. It is for information only.

3 Next Steps

3.1 There are no proposals in this report. It is for information only.

4 Potential Impact on Objectives

4.1 There is no direct impact on Objectives.

5 Finance and Other Resources

5.1 There are no direct financial implications arising from the report.

6 Legal

6.1 There are no direct legal implications arising from the report.

7 Other Considerations

7.1 Consultation/Community Engagement

No external consultation or community engagement required.

7.2 Human Rights

There are no implications under the Human Rights Act 1998 (or as amended).

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

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7.6 Environment and Sustainability

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

8 Background Documents

8.1 None.

9 Links to the Local Transport Plans

9.1 There is no direct link to the Local Transport Plans

10 Appendices

Minutes of the Meeting of Regional Standards Committee Chairmen and Independent Persons Meeting on 9 October 2015

11 Contact Officers

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Stephen Ballantyne, Lawyer Specialist – Governance and Employment. Email:
stephen.ballantyne@northtyneside.gov.uk. Tel: 0191 6435329

12 Sign off

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

North East Combined Authority

Governance Committee

Date: 11 December 2015

Subject: Code of Conduct for Members – Declaration of Interests and Gifts and Hospitality

Report of: Interim Monitoring Officer

Executive Summary

The purpose of this report is to advise the Committee of the requirements of Members' Code of Conduct in relation to the declaration of interests and the receipt of gifts and hospitality and to advise on the use of the Members' Code of Conduct when compared with other Combined Authorities.

Recommendations

It is recommended that the Committee note this report.

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1 Background Information

1.1.1 The Localism Act 2011 places a statutory obligation on the NECA to promote and maintain high standards of conduct by its elected Members. As a result with effect from 29 April 2014, the NECA has adopted a Code of Conduct for Elected Members (“Members’ Code of Conduct”) and local arrangements for how complaints will be dealt with.

1.1.2 All Members of the Combined Authority (the Members of the Leadership Board) and those Councillors who occupy seats on the various Committees and Joint Committees of the Authority are subject to the requirements of the Code of Conduct. If a Member fails to comply with the requirements of the Code a complaint can be made. For ease of reference Members and Councillors are both referred to as Members in this report.

1.1.3 The Members’ Code of Conduct sets out General Obligations in relation to Member behaviour and also defines what and how interests that Members have must be declared and managed.

Complaints under the Code of Conduct

1.1.4 Since the introduction of the Code of Conduct in April 2014 no complaints have been made against a Members of the Authority.

1.1.5 To assist Members by securing comparative information enquiries have been made of all the Combined Authorities in the Country in relation to their use of their Members’ Code of Conduct. One response was received from the West Yorkshire Combined Authority who has confirmed that no complaints have been made against their Members under their Code of Conduct.

1.1.6 The Members of the Combined Authority and those Councillors who occupy seats on the various Committees and Joint Committee of the Authority are, as elected Members of the constituent authorities, also subject to the Member Codes of Conduct of their own authorities.

1.1.7 If a complaint against a Member is received by the Authority it is important to ensure that the complaint relates to the role the Member discharges on behalf of the Authority. The Arrangements for Dealing with Allegations of Breaches of the Code of Conduct for Members adopted by the Authority makes provision, where a complaint is made against a Member of the Authority, for the Interim Monitoring Officer and the Monitoring Officer of the Member’s appropriate Constituent Authority to determine

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whether the complaint is to be properly dealt with in accordance with the Authority's local arrangements or the appropriate Constituent Authority's local arrangements.

- 1.1.8 The Arrangements ensure that complaints are dealt with by the appropriate authority and reflect the arrangements that have been adopted in the West Yorkshire Combined Authority.

Declarations of Interests

- 1.1.9 The Member's Code of Conduct provides for the declaration of interests by Members of the Authority.

- 1.1.10 The Interests regulated by the Members' Code of Conduct are set out in Part 2 and Part 3 of the Code of Conduct. Again the Members are also regulated by their own authorities it is important to ensure that the only interests declared are those where the interests are linked or could have an interaction with the work and functions of the Authority.

- 1.1.11 It is the responsibility of all Members of the Authority to maintain their Register of Interests and to update it accordingly within 28 days of any change.

- 1.1.12 To enable the Governance Committee to assess compliance with the requirements of the Code an analysis of the return of completed Register of Interests forms from the Members required to comply with the Code has been undertaken.

- 1.1.13 In total there are 89 positions (including substitutes) on the Authority, these are made up of the Leadership Board and the various Committees and Joint Committees of the Authority. Some Members hold more than one position and only 1 Register of Interest form is required from each Member in relation to the position(s) they hold.

- 1.1.14 At the present time 61 Members hold the 89 positions on the Authority. The Authority as detailed above should therefore have a Register of Interest form from each of these individuals. The Authority has received 51 forms. There are therefore 10 outstanding where no Register of Interest form has been returned.

- 1.1.15 Across the Constituent Authorities the breakdown of outstanding forms is as follows:

Durham County Council – 1 form outstanding
Gateshead Council – 2 forms outstanding
Newcastle City Council – 1 form outstanding
Northumberland County Council – 2 forms outstanding

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South Tyneside Council – 1 form outstanding
North Tyneside Council – 0 forms outstanding
Sunderland City Council – 0 forms outstanding

- 1.2.15 The Interim Monitoring Officer has requested the completion of all outstanding Register of Interest forms. All Members may seek advice and guidance from the Interim Monitoring Officer in relation to the completion of Register Forms. The failure to complete a Register form within 28 days of appointment or within 28 days of any change may constitute a breach of the Members' Code of Conduct.

Declaration of Gifts and Hospitality

- 1.2.16 Part 3 of the Members' Code of Conduct also makes provision for the declaration of Gifts and Hospitality. Members of the Authority are required to declare the identity of any "person from whom you have received within the previous three years a gift or hospitality with an estimated value of more than £50 which is attributable to your position as member of the NECA."
- 1.2.17 To facilitate the declaration of Gifts and Hospitality, a declaration form is attached to all agenda for Authority meetings. As with the other provisions of the Member's Code of Conduct the declaration of any gifts and hospitality has to be attributable to the Member's role within the Authority and not their Membership of one of the constituent authorities. To assist in determining this distinction advise and guidance is available from the Interim Monitoring Officer for all Members of the Authority in relation to the requirement to declare gifts and hospitality.

2 Proposals

- 2.1 There are no proposals in this report. It is for information only.

3 Next Steps

- 3.1 To note the information provided in the report.

4 Potential Impact on Objectives

- 4.1 There is not direct impact on Objectives provided by this report.

5 Finance and Other Resources

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

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6 Legal

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

7 Other Considerations

7.1 Consultation/Community Engagement

No external consultation or community engagement is required.

7.2 Human Rights

There are no Human Rights Act 1998 implications 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 issues arising from this report.

7.5 Crime and Disorder

There are no crime and disorder issues arising from this report.

7.6 Environment and Sustainability

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

8 Background Documents

8.1 The Authority's Register of Interests

9 Links to the Local Transport Plans

9.1 There is no direct link between this report and the Local Transport Plan.

10 Appendices

10.1 Members' Code of Conduct.

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Governance Committee

11 Contact Officers

- 11.1 Vivienne Geary, Interim Monitoring Officer. Email: viv.geary@northtyneside.gov.uk
Tel: 0191 6435339
Stephen Ballantyne, Lawyer Specialist – Governance and Employment. Email:
stephen.ballantyne@northtyneside.gov.uk. Tel: 0191 6435329

12 Sign off

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

North East Combined Authority

Governance Committee

Date: 11 December 2015
Subject: Annual Audit Letter
Report of: Chief Finance Officer

Executive Summary

This report presents the Annual Audit Letter for 2014/15 and an update on the final closure of accounts sign off, including some additional information which was requested by the Committee at the last meeting.

Recommendations

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

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The full Annual Report and Accounts was completed and signed off by the Chief Finance Officer on 30 June 2015, in line with the statutory deadline.
- 1.2 The Statement of Accounts was been subject to a period of public inspection and external audit and the final Annual Report and Accounts was presented for detailed review by Governance Committee. Feedback and recommendations from Governance Committee were reported to the Leadership Board meeting on 15 September.
- 1.3 At the time of the last meeting, there were a number of minor items still outstanding as part of the Audit. The Annual Audit Letter attached as Appendix 1 confirms that all of these items were resolved and the audit completed in line with the statutory deadlines.
- 1.4 The Statement of Accounts was signed off by the Chair of the Leadership Board and the Chief Finance Officer on behalf of the Authority and published online on 30 September 2015.

2 Proposals

Annual Audit Letter

- 2.1 The full Annual Audit Letter is attached to this report at Appendix 1.
- 2.2 Following a national tendering exercise, 2014/15 was the final year of Deloitte's appointment as external auditors to NECA. NECA Finance staff have developed a very good working relationship with Deloitte and would like to thank them for their efforts over the last four years of the audit contract.

NELEP Loans and Grants

- 2.3 At the September meeting of Governance Committee, members requested a breakdown of payments from the Regional Growth Fund and Growing Places Fund between Loans and Grants. The Grant payments were all made to Local Authorities, as these relate to the infrastructure requirements for Enterprise Zones in the region. In accounting terms these payments are classed as grants, however the increased business rates income from these zones resulting from the investment are paid to the LEP.
- 2.4 The tables below summarises the split between loans and grants for the Regional Growth Fund and Growing Places Fund.

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Growing Places Fund			
Year	Loans issued (£)	Loan repayments including interest (£)	Grants to Enterprise Zones (£)
2012/13	1,351,922	-	7,822
2013/14	4,621,104	(164,102)	135,756
2014/15	115,009	(1,714,121)	6,248,975
Total	6,088,034	(1,878,223)	6,392,553
GPF loans and grants			12,480,587
% Loans			49%
% Grants to Enterprise Zones			51%

Regional Growth Fund			
Year	Loans issued (£)	Loan repayments including interest (£)	Grants to Enterprise Zones (£)
2012/13	-	-	-
2013/14	1,903,000	(175,522)	-
2014/15	9,022,321	(972,559)	2,894,443
Total	10,925,321	(1,148,081)	2,894,443
RGF loans and grants			13,819,764
% Loans			79%
% Grants to Enterprise Zones			21%

3 Next Steps

- 3.1 The Annual Audit Letter will be published on the Authority's website where it is available to the public for information.

4 Potential Impact on Objectives

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

5 Finance and Other Resources

- 5.1 Financial and other resource implications are set out in the body of the report.

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6 Legal

- 6.1 There are no legal implications directly arising from this report. The Accounts and Audit (England) Regulations 2011 set out the responsibilities of bodies such as NECA in relation to the production of statutory accounts and their audit. Under the NECA Constitution, it is the responsibility of Governance Committee to review key information relating to the NECA's Statement of Accounts, but the approval of the Accounts is a responsibility for the Leadership Board.

7 Other Considerations

7.1 Consultation/Community Engagement

The accounts were subject to a period of public inspection from 1 July to 31 July 2015.

7.2 Human Rights

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

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

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

8 Background Documents

- 8.1 North East Combined Authority Annual Report and Accounts 2014/15.

9 Links to the Local Transport Plans

- 9.1 There are no links to plans in the policy framework

10 Appendices

- 10.1 Appendix 1 – Annual Audit Letter 2014/15.

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Governance Committee

11 Contact Officers

11.1 Eleanor Goodman, Principal Accountant NECA,
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12 Sign off

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

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North East Combined Authority

Annual audit letter to the Members of the Authority
for the year ended 31 March 2015

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The big picture

We are required to issue an annual audit letter to North East Combined Authority (the "Authority") following completion of our audit procedures for the year ended 31 March 2015. The letter is to be published on the Authority's website.

Below are the conclusions we have formed on the significant areas of the audit process.

The Authority's financial statements	We issued an unqualified opinion on the Authority's financial statements for the year ended 31 March 2015 on 30 September 2015.
Value for money conclusion	We have issued an unmodified conclusion on the Authority's arrangements for securing value for money for the year ended 31 March 2015 on 30 September 2015.
Whole of Government Accounts return	We have met the National Audit Office reporting deadline of 2 October 2015, reporting that the consolidated return is consistent with our audited statutory accounts and we have no errors in excess of the reporting threshold to report.

1. Purpose and responsibilities

Purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Authority as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that the Authority has relevant safeguards and properly accounted for public money.

The Letter will be published on the Public Sector Audit Appointments Limited website at www.psa.co.uk and should also be published on the Authority's website.

Responsibilities of the appointed auditor and the Authority

Responsibilities of the appointed auditor

We were appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England for 2014/15, including local authorities.

As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we review and report on:

- the Authority's financial statements;
- the Authority's annual report; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion) in respect of its local authority functions.

We also provide an assurance report to the National Audit Office on the financial information prepared by the Authority for consolidation into the Whole of Government Accounts.

Note: 2014/15 is the final year of our appointment as external auditors to the Authority following a national contract tendering exercise.

Responsibilities of the Authority

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

As part of our procedures we have considered how the Authority has fulfilled these responsibilities.

2. Financial reporting

Key issues arising from the audit of the Authority's financial statements

We have issued a separate report to the Governance Committee for the year ended 31 March 2015, which details the findings from our audit of the financial statements and the Authority's value for money arrangements. In that report we explained how we focused our work on areas which involve more complex accounting judgements and estimation. A summary of the significant risks identified as part of our audit is included below:

Significant audit risk	Conclusion
Revenue recognition	Grant income was a significant audit risk due to the requirement for management to consider each type of grant individually to consider appropriate treatment, and the associated judgement in relation to this. We also identified the Tyne Tunnel toll income as a significant risk due to considerations resulting from the cash nature of the receipts. Our testing concluded that grant income and Tyne Tunnel toll income recognition was appropriate.
Management override of controls	We did not consider management's estimates to be unreasonable and nor did we identify any evidence of bias. For the journals posted in relation to the LEP we identified one internal control deficiency in that there was no requirement for journals to be authorised before being posted. Management have performed a retrospective review of all journals and from the sample we tested we did not identify any issues with the actual journals posted.
Transfer of the Local Enterprise Partnership (LEP)	We did not identify any issues with the completeness of the LEP balances which transferred or the consolidation of these balances into the NECA financial statements.
Recoverability of Loans	We did not identify any issues with the recoverability of the loans provided by the LEP to companies and organisation in the region or the security provided in relation to these loans. From our review of the loan documentation we identified that in a small number of cases, changes to the way in which the funding was to be provided to an applicant i.e. as a grant rather than a loan, was not fully updated in the signed documentation.

We did not identify any significant issues arising from these areas and we consider management's judgements to be reasonable.

2. Financial reporting (continued)

Key issues arising from the work performed on the Whole of Government Accounts return

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Authority's whole of government accounts return. Our report is used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

We reported to the National Audit Office on the WGA in line with the October deadline. We reported that we consider the consolidation return to be consistent with the audited statutory accounts and that there are no uncorrected errors above the NAO's reporting threshold of £1m.

3. Value for Money

Background

Under the Audit Commission Code of Audit practice, as appointed auditors, we are required to draw a conclusion regarding the organisation's arrangements to secure economy, efficiency and effectiveness of its use of resources (the value for money (VFM) conclusion).

Audit work completed to address the significant risk

In 2014/15 as set out in the *2014/15 Work Programme and Scales of Fees: Local Government*, the approach to local VFM audit work at the larger relevant bodies, including the Authority, is not based on criteria specified by the Commission. For 2014/15, auditors of these bodies will continue to meet their VFM duty by:

- reviewing the Annual Governance Statement;
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

Audit work completed

We reviewed the Annual Governance Statement. We did not identify any work undertaken by other regulatory bodies or the need to undertake any local risk-based work, nor was there any additional work mandated by the Commission.

No issues impacting our VFM conclusion were identified and we issued an unqualified conclusion.

Financial resilience

We considered the financial standing of the Authority as at 31 March 2015. We assessed this based on current and on-going expenditure demands, expected income levels and the current cash position of the Authority. Following the Government's comprehensive spending review and the extent of reduction in the funding settlement, and major changes in Government policy, the Authority continues to face severe financial pressures over the next few years but we have no specific concerns over the response to those challenges or the financial standing of the Authority.

4. Purpose of our report and responsibility statement

What we report

Our report is designed to help the Authority discharge its governance duties and includes:

- Results of our work on key audit judgements and our observations on the quality of your Financial Statements.
- Our value for money conclusion, based on work undertaken in response to our risk assessment and guidance issued by the Audit Commission in October 2014.
- Results of any other work undertaken in relation to our responsibilities and duties in line with the Audit Commission Act 1998 and Code of Audit Practice 2010.
- Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.


What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Authority.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Officers or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.
- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you previously.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP
Chartered Accountants

Newcastle
30 October 2015

This report has been prepared for the Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Appendix 1: Independence and fees

Independence confirmation	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	There are no other relationships with the Authority and its known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

2014/15
£

Fees payable in respect of our work under the Code of Audit Practice in respect of the Authority's annual accounts, assurance report on the Whole of Government accounts and the value of money conclusion	32,397
Total fees payable in respect of our role as Appointed Auditor	32,397



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Member of Deloitte Touche Tohmatsu Limited

Annual Audit Letter 2015

Nexus

September 2015



Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

September 2015

Audit Committee
Nexus
Nexus House
St James Boulevard
Newcastle Upon Tyne
NE1 4AX

Dear Members

Annual Audit Letter 2014/2015

I am delighted to present to you the 2014/15 Nexus Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the 2014/15 annual accounts and our work on the value for money conclusion.

I carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with agreed timetables.

I would like to express my thanks for the assistance of Nexus officers, the Executive (Corporate Management Team) and the Audit Committee during the audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact me on 07979164467.

Yours faithfully

Gareth Davies
Mazars LLP

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

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01 Key messages

Our 2014/15 audit of Nexus was made up of two elements:

- audit of the financial statements; and
- our assessment of your arrangements for achieving value for money in your use of resources.

The key conclusions for each element are summarised below.

Audit of the financial statements

We issued an audit report including an unqualified opinion on Nexus' financial statements on 30 July 2015. The audit progressed smoothly and we did not identify any material errors which required adjustment.

Value for money

We undertook work in line with Audit Commission guidance, and concluded there were no matters to report in our formal conclusion on Nexus's arrangements to ensure economy, efficiency and effectiveness in the use of its resources.

We issued our certificate, closing this year's audit, on 28 September 2015 on completion of our work on your Whole of Government Accounts return.

Future Challenges

Nexus is managing some significant challenges in 2015/16 and beyond:

- managing the risks in respect of the Quality Contract Scheme and the potential impact on the medium term financial strategy;
- developing the governance arrangements with the North East Combined Authority;
- continuing to deliver good quality services but with reducing resources; and
- managing the financial risks in relation to the Metro Reinvigoration programme.

Our 2015/16 audit will focus on the risks that these challenges present to Nexus' financial statements and its ability to maintain proper arrangements for securing value for money.

02 Financial Statements

Audit of the financial statements

We audited the Nexus' financial statements in line with auditing standards and we reported the detailed findings of the audit to the 28 July 2015 Audit Committee and 29 July 2015 Executive in our Audit Completion Report. We issued an audit report including an unqualified opinion on Nexus' financial statements on 30 July 2015.

Issues arising from the audit of the accounts

As in previous years, the audit progressed smoothly. The draft financial statements were of a good quality as were the supporting working papers. We did not identify any material errors. We identified three non-trivial misstatements which Nexus amended and one unadjusted non-trivial misstatement totalling £367,000 which related to historic creditor balances. The draft accounts were amended for a number of disclosure changes identified during the audit.

Weaknesses in internal control

We did not identify any significant deficiencies in the accounting and internal control systems during the course of the audit.

03 Securing economy, efficiency and effectiveness – value for money conclusion

Value for money

For 2014/15, the Audit Commission specified that our value for money work would comprise:

- a review of your annual governance statement;
- reviewing the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on my responsibilities; and
- any risk-based work we determined appropriate.

Annual Governance Statement

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

Work of other regulatory bodies or inspectorates

We did not identify any other relevant work which impacted upon our value for money conclusion.

Other risk based work

We identified one significant risk relating to financial resilience. Our work concluded that Nexus maintained adequate value for money arrangements for 2014/15. We made two recommendations which are intended to assist the organisation to ensure arrangements remain adequate given the increasing levels of risk:

- consider more formal monitoring and reporting arrangements for agreed efficiency savings plans; and
- the corporate management team should report progress on the Quality Contract Scheme to each meeting of the Audit Committee and consider the potential impact on the medium term financial forecasting

We also considered the changes to the governance arrangements following the creation of the North East Combined Authority. Our work concluded that the current arrangements remain adequate. We will continue to monitor this during our 2015/16 audit.

Overall, we concluded that there were no matters that we required to report in our formal value for money conclusion.

04 Fees

Our audit fees for the year are in line with those communicated in our Audit Strategy Memorandum dated March 2015, being

£44,760 (plus VAT) for audit work;

We also carried out other non-audit services work for Nexus. These were:

- Review of Internal Audit - £2,500 (plus VAT); and
- Network Travel Ticket Limited Agency Agreements (2012/13 to 2014/15) - £6,700 (plus VAT).

We have discussed and agreed this letter with the Director of Finance and Resources and will provide copies to all Directors. Further detailed findings and conclusions in the areas covered by our audit are included in the reports issued to Nexus during the year:

Report	Date issued
2014/15 Audit Fee Letter	April 2014
Audit Strategy Memorandum	March 2015
Director declarations	March 2015
Progress reports to Audit Committee	To each Audit Committee meeting
Audit Completion Report, including review of VfM arrangements	July 2015
Audit Opinion on the Financial Statements	July 2015

I wish to thank the Executive, Audit Committee and Nexus staff for its support and co-operation during our audit.

Gareth Davies
Partner
September 2015

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North East Combined Authority

Governance Committee

Date: 11 December 2015
Subject: External Audit Update 2015/16
Report of: External Auditor – Mazars LLP

Executive Summary

This report presents an update from the new External Auditors to the Authority, Mazars LLP.

Recommendations

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

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 Following a national tendering exercise, Mazars LLP have been appointed as the external auditors to the North East Combined Authority. The report attached at Appendix 1 provides a full update on their work so far in 2015/16 and planned work for the remainder of the year.

2 Proposals

- 2.1 The update report is attached as Appendix 1.

3 Next Steps

- 3.1 Regular updates on progress with the 2015/16 audit will be brought to future meetings of this committee.

4 Potential Impact on Objectives

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

5 Finance and Other Resources

- 5.1 The audit fee for 2015/16 has been set at £24,298 + VAT, a 25% reduction on the previous year's audit fee. This has been built into the 2015/16 budget.

6 Legal

- 6.1 There are no legal implications directly arising from this report. The Accounts and Audit (England) Regulations 2011 set out the responsibilities of bodies such as NECA in relation to the production of statutory accounts and their audit. Under the NECA Constitution, it is the responsibility of Governance Committee to review key information relating to the NECA's Statement of Accounts and receive updates from its external auditors.

7 Other Considerations

7.1 Consultation/Community Engagement

There are no consultation or community engagement considerations directly arising from this report.

North East Combined Authority

Governance Committee

7.2 Human Rights

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

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

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

8 Background Documents

8.1 None.

9 Links to the Local Transport Plans

9.1 There are no links to plans in the policy framework

10 Appendices

10.1 Appendix 1 – Audit Progress Report December 2016

11 Contact Officers

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

Jim Dafter, Senior Manager, Mazars, jim.dafter@mazars.co.uk,
0191 433 3662

12 Sign off

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

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North East Combined Authority

Annual audit letter to the Members of the Authority
for the year ended 31 March 2015

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The big picture

We are required to issue an annual audit letter to North East Combined Authority (the "Authority") following completion of our audit procedures for the year ended 31 March 2015. The letter is to be published on the Authority's website.

Below are the conclusions we have formed on the significant areas of the audit process.

The Authority's financial statements	We issued an unqualified opinion on the Authority's financial statements for the year ended 31 March 2015 on 30 September 2015.
Value for money conclusion	We have issued an unmodified conclusion on the Authority's arrangements for securing value for money for the year ended 31 March 2015 on 30 September 2015.
Whole of Government Accounts return	We have met the National Audit Office reporting deadline of 2 October 2015, reporting that the consolidated return is consistent with our audited statutory accounts and we have no errors in excess of the reporting threshold to report.

1. Purpose and responsibilities

Purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Authority as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that the Authority has relevant safeguards and properly accounted for public money.

The Letter will be published on the Public Sector Audit Appointments Limited website at www.psa.co.uk and should also be published on the Authority's website.

Responsibilities of the appointed auditor and the Authority

Responsibilities of the appointed auditor

We were appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England for 2014/15, including local authorities.

As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we review and report on:

- the Authority's financial statements;
- the Authority's annual report; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion) in respect of its local authority functions.

We also provide an assurance report to the National Audit Office on the financial information prepared by the Authority for consolidation into the Whole of Government Accounts.

Note: 2014/15 is the final year of our appointment as external auditors to the Authority following a national contract tendering exercise.

Responsibilities of the Authority

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

As part of our procedures we have considered how the Authority has fulfilled these responsibilities.

2. Financial reporting

Key issues arising from the audit of the Authority's financial statements

We have issued a separate report to the Governance Committee for the year ended 31 March 2015, which details the findings from our audit of the financial statements and the Authority's value for money arrangements. In that report we explained how we focused our work on areas which involve more complex accounting judgements and estimation. A summary of the significant risks identified as part of our audit is included below:

Significant audit risk	Conclusion
Revenue recognition	Grant income was a significant audit risk due to the requirement for management to consider each type of grant individually to consider appropriate treatment, and the associated judgement in relation to this. We also identified the Tyne Tunnel toll income as a significant risk due to considerations resulting from the cash nature of the receipts. Our testing concluded that grant income and Tyne Tunnel toll income recognition was appropriate.
Management override of controls	We did not consider management's estimates to be unreasonable and nor did we identify any evidence of bias. For the journals posted in relation to the LEP we identified one internal control deficiency in that there was no requirement for journals to be authorised before being posted. Management have performed a retrospective review of all journals and from the sample we tested we did not identify any issues with the actual journals posted.
Transfer of the Local Enterprise Partnership (LEP)	We did not identify any issues with the completeness of the LEP balances which transferred or the consolidation of these balances into the NECA financial statements.
Recoverability of Loans	We did not identify any issues with the recoverability of the loans provided by the LEP to companies and organisation in the region or the security provided in relation to these loans. From our review of the loan documentation we identified that in a small number of cases, changes to the way in which the funding was to be provided to an applicant i.e. as a grant rather than a loan, was not fully updated in the signed documentation.

We did not identify any significant issues arising from these areas and we consider management's judgements to be reasonable.

2. Financial reporting (continued)

Key issues arising from the work performed on the Whole of Government Accounts return

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Authority's whole of government accounts return. Our report is used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

We reported to the National Audit Office on the WGA in line with the October deadline. We reported that we consider the consolidation return to be consistent with the audited statutory accounts and that there are no uncorrected errors above the NAO's reporting threshold of £1m.

3. Value for Money

Background

Under the Audit Commission Code of Audit practice, as appointed auditors, we are required to draw a conclusion regarding the organisation's arrangements to secure economy, efficiency and effectiveness of its use of resources (the value for money (VFM) conclusion).

Audit work completed to address the significant risk

In 2014/15 as set out in the *2014/15 Work Programme and Scales of Fees: Local Government*, the approach to local VFM audit work at the larger relevant bodies, including the Authority, is not based on criteria specified by the Commission. For 2014/15, auditors of these bodies will continue to meet their VFM duty by:

- reviewing the Annual Governance Statement;
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

Audit work completed

We reviewed the Annual Governance Statement. We did not identify any work undertaken by other regulatory bodies or the need to undertake any local risk-based work, nor was there any additional work mandated by the Commission.

No issues impacting our VFM conclusion were identified and we issued an unqualified conclusion.

Financial resilience

We considered the financial standing of the Authority as at 31 March 2015. We assessed this based on current and on-going expenditure demands, expected income levels and the current cash position of the Authority. Following the Government's comprehensive spending review and the extent of reduction in the funding settlement, and major changes in Government policy, the Authority continues to face severe financial pressures over the next few years but we have no specific concerns over the response to those challenges or the financial standing of the Authority.

4. Purpose of our report and responsibility statement

What we report

Our report is designed to help the Authority discharge its governance duties and includes:

- Results of our work on key audit judgements and our observations on the quality of your Financial Statements.
- Our value for money conclusion, based on work undertaken in response to our risk assessment and guidance issued by the Audit Commission in October 2014.
- Results of any other work undertaken in relation to our responsibilities and duties in line with the Audit Commission Act 1998 and Code of Audit Practice 2010.
- Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Authority.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Officers or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.
- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you previously.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

Chartered Accountants

Newcastle

30 October 2015

This report has been prepared for the Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Appendix 1: Independence and fees

Independence confirmation	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	There are no other relationships with the Authority and its known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

2014/15
£

Fees payable in respect of our work under the Code of Audit Practice in respect of the Authority's annual accounts, assurance report on the Whole of Government accounts and the value of money conclusion	32,397
Total fees payable in respect of our role as Appointed Auditor	32,397



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North East Combined Authority

Governance Committee

Date: 11 December 2015
Subject: NECA Budget Preparation 2016/17
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 2016/17 NECA budget, as part of its consultation process. A summary report on the Draft 2016/17 Budget presented to the Leadership Board on 17 November and the more detailed report on the Tyne and Wear Transport Budget presented to the Tyne and Wear Sub-Committee on 24 November and an extract from the TNEC report covering Transport costs in Durham and Northumberland are attached as appendices. The report also includes an update on Treasury Management activity and headline outcomes from the Spending Review.

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 seek the views of the Overview and Scrutiny Committee on proposals for the 2016/17 NECA budget, as part of its consultation process. The summary report on the Draft Budget presented to the Leadership Board on 17 November covering all aspects of the NECA budget, the more detailed report on the Tyne and Wear Transport Budget presented to the Tyne and Wear Sub-Committee on 24 November and an extract from the Transport Budget report to the TNEC meeting also on 24 November, covering transport budget information for Durham and Northumberland are attached as appendices.

2 Proposals

- 2.1 The budget proposals for 2016/17 as they currently stand for both Transport and non-Transport activity are set out in the reports attached as Appendices 1, 2 and 3. An update will be provided at the meeting on discussions to date and any new information on funding following the Spending Review announcement on 25 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.
- 2.3 Spending Review Update

Since the preparation of the initial budget reports, the 2015 Spending Review on 25 November has provided confirmation of future years Local Growth Deal allocations and the continuation of DCLG core funding grant funding for Local Enterprise Partnerships. There was also confirmation of further Enterprise Zones for the North East area, with the full area which was submitted being agreed. No cut was made to Metro Rail Grant or Bus Service Operators Grant.

The implications of the Spending Review on individual council budgets will not be available until the details of the Local Government Settlement are released, which is expected to be later in December. However, it is expected that there will be a significant grant cut in funding for services over the next four years as the national total for local government grant has been cut by £6.1bn. The Government has assumed that councils will be able to use £2bn of growth in business rates income and a £4.3bn increase in council tax income, including an annual 2% precept for adult social care over the period, to maintain spending in cash terms. However within this spending total, over £3.5bn will be refocused to meet spending pressures on adult social care. Councils will have to face significant cuts in their funding for other services, including Transport, to meet inflationary cost pressures as well as the transfer of funding to adult social care.

North East Combined Authority

Governance Committee

2.4 Treasury Management

Appendix 4 provides a copy of the Mid-Year Update report on Treasury Management activity which was presented to the Leadership Board on 17 November. Work is underway to develop proposals for a potential pooled treasury management arrangement across the NECA area, and an update will be provided at the meeting on this work and its implications for the 2016/17 Treasury Management and Investment Strategy.

It is hoped that an increase in interest receipts will help fund some of the corporate costs of NECA.

3 Next Steps

- 3.1 The main budget for 2016/17 will be presented to the Leaders Board for agreement on 19 January 2016, with follow-up reports likely at further meetings in March and in future months as details of the proposed Devolution deal are confirmed.

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 appendices.

6 Legal

- 6.1 The legal implications are set out in the individual reports contained as appendices.

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 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

North East Combined Authority

Governance Committee

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

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

8 Background Documents

8.1 None.

9 Links to the Local Transport Plans

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

10 Appendices

- 10.1 Appendix 1: Report to the Leadership Board 17 November 2015 – Draft Budget 2016/17 and Transport Levies
Appendix 2: Report to the Tyne and Wear Sub-Committee 24 November 2015
Appendix 3: Extract from the Budget Report to Transport North East Committee 24 November 2015
Appendix 4: Treasury Management Mid-Year Update report to the Leadership Board 17 November 2015

11 Contact Officers

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

12 Sign off

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

North East Combined Authority

Leadership Board

DATE: 17th November 2015

SUBJECT: Draft Budget 2016/17 and Transport Levies

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 2016/17 Budget Report for the North East Combined Authority (NECA) for consideration by the Leadership Board on 19th January 2016. Identifying them in this report forms 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 will be announced after the Spending Review on 25th November and possibly as late as 16th December.
- 1.2 The financial and governance implications associated with the devolution agreement will also impact positively on the Budgets in future years, particularly in relation to the responsibilities of NECA and NELEP and any elected Mayor. The budgets for 2016/17 and 2017/18 will need to be set before the results of any mayoral election are known. The formal confirmation of the Devolution Agreement and any additional funding for 2016/17 is due to take place early in the New Year, probably before the end of March, although the date is not yet clear.
- 1.3 Further information about the detailed content of the budget is currently being developed, including information still to be announced or confirmed about grant funding and its proposed uses. As further information becomes available it will be included in future reports, including information provided to Overview and Scrutiny Committee. The more detailed information, once available, will be reflected in the January report or reports in March and future meetings of the Leadership Board as funding is confirmed and spending can be agreed, taking into account comments that emerge from consultation.
- 1.4 This is the second formal Budget process that has been undertaken since the Combined Authority was established in April 2014. NECA is required by law to set its Revenue Budget and Transport levies for 2016/17 by 15th February 2016 at the latest. It is also necessary to agree the level of any contributions from constituent councils towards non-transport costs, so that the councils can take the levies and contributions into account in setting their own budgets for 2016/17.

North East Combined Authority

Leadership Board

- 1.5 It has been agreed that the Leadership Board will set the Base Revenue Budget, Initial Capital Programme and levies at its scheduled meeting on 19th January 2016. This will provide the information about levies and contributions to the NECA budget in good time for the seven constituent councils to include it within their budgets. As additional revenue and capital funding for 2016/17 and future years is confirmed, the Leadership Board can agree revisions to its Revenue and Capital Budget at its future meetings, in particular a special meeting in March will be able to agree additional spending funded by additional resources, giving time to consult on detailed proposals.
- 1.6 This budget report sets out the indicative level of resources planned to be used in 2016/17 to help deliver the Objectives of NECA and the North East Strategic Economic Plan. It is a policy led budget, which has also to be set in the context of the national position of austerity, which is expected to require further significant savings to be achieved in local authority revenue spending over the next four years; as well as reflecting the potential new capital funding opportunities presented by the devolution agenda.
- 1.7 In the current year additional funding is needed in order to provide the internal and external capacity to progress the various work streams related to the Devolution agenda, including work relating to the Health and Social Care Commission and public service integration. It is proposed that a budget of up to £0.5m be established for this purpose, with any release of the funding for specific proposals to be agreed under the delegated decision making process, with further details to be reported in the January Budget Report.
- 1.8 At this point it is envisaged that –
- Capital investment in transport, infrastructure and economic development appears likely to increase significantly in 2016/17, potentially by £25m in respect of Local Growth funded schemes if the indicative grant allocation is agreed in full, plus up to £30m in the event of a devolution deal being agreed, and the first year of an £89m investment programme in the event that our latest Enterprise Zone bid is agreed. The capital programme report in January will include known projects and funding allocations. We expect that more detail of projects to be funded from the Strategic Investment fund will be included in a report in March and future months. Tyne and Wear Sub-Committee will be considering the proposed Metro Asset Renewal Programme, which currently attracts 90% grant funding from DfT;
 - The budget could potentially include additional funding for investment in employability and skills, partly funded from successful bidding and alignment of funds with c£180m of European Social Funding (ESF) to be available from

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2015 to 2020; and investment into innovation, SME competitiveness and the low carbon agenda through successful bidding and alignment of funds with European Regional and Development Funds (ERDF) of c£200m;

- The provisional Transport Revenue Budget and Levies for 2016/17 are estimated to be almost £86.7m, which is a cash reduction of -£2.5m (-2.9%) compared with the current year, to be delivered mainly through efficiency savings and use of reserves while reductions in discretionary transport budgets and services are explored for consultation in 2016 for implementation from 2017; and
- The only significant fees or charges to be set by the NECA as part of the 2016/17 budget relate to Metro Fares, where an increase in line with RPI inflation is envisaged for implementation on 2 January 2016. Tyne and Wear Sub-Committee will consider options about the price of the Gold Card and child fare concessions at its November meeting and their recommendations will be reflected in the consultation document; and the increase in the Tyne Tunnel Tolls, which were due to be increased in January 2016 to be maintained in real terms since they were last set in 2013, will be now considered for implementation in April 2016.

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 budget for 2016/17 as another transitional year, while seeking to develop a medium term financial plan during 2016, which will take into account the outcome of the additional funding secured through the devolution agreement as well as any austerity savings required to be made;
- c) agree that the following points and proposals form the basis of consultation about the NECA 2016/17 Budget : -
 1. The Revenue Budget and Capital Investment Programme of the NECA and NELEP will be developed to deliver the Strategic Objectives of NECA and the Objectives set out in the Strategic Economic Plan, as highlighted in Section 3 of this report;
 2. Resources will be identified and secured to support the capacity of the NECA and NELEP to secure the resources and deliver the actions needed

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to deliver the SEP strategic objectives. Councils' current funding contributions will be maintained at least at their current level, and the intention is that additional capacity that is required both in 2015/16 and future years, will be funded from additional external funding, including additional devolution funding; interest on cash balances; savings on existing budgets; and reserves, where this is possible:

3. The Transport Budget and Levy for Tyne and Wear is indicatively proposed to be set at £65.12m, which is a reduction of £2.08m (-3.1%) from the 2015/16 levy, achieved by efficiency and other cost savings and use of reserves in 2016/17 and reductions in discretionary transport budgets and services from 2017. This reduction is subject to there being no significant cuts to the Revenue grants received by Nexus from DfT. If the Metro Rail Grant is subject to a reduction in the spending review, the impact of this and any alternative savings options will need to be considered in setting the Budget and Levy in January;
4. If the Tyne and Wear Levy is reduced by £2.08m, the grant to Nexus funded by the levy is proposed to be £62.5m, a saving of £2.0m (-3.1%) achieved from efficiency savings and use of reserves next year and potentially by cuts in discretionary transport services from 2017, with a saving of £0.080m in the NECA Tyne and Wear transport budget;
5. The impact of the cuts in Government Funding to Nexus and constituent councils; as well as options for delivering the Bus Strategy will be taken into account in a Strategic Review of all discretionary expenditure during the first half of 2016 to form the basis of a consultation on any proposals for services needed from 2017/18 onwards. This will have regard to the relative strategic priority of transport services and other services provided by councils;
6. The indicative Transport Budget and Levy for Durham County area is £15.342m, which is a reduction of £0.735m (-4.6%) on the original budget for 2015/16. This reduction is due to anticipated reduced payments to bus companies for Concessionary Fares (£0.166m), planned cost savings primarily on subsidised bus services (£0.441m) and general budget realignment (£0.128m);
7. The indicative Transport Budget and Levy for Northumberland County area is likely to be around £6.159m, which is an increase of £0.258m (4.3%) on the original budget for 2015/16. This is due mainly to increased

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costs of concessionary travel and the reinstatement of a proposed saving to the Scheme following an audit of the use of disabled passes;

8. Proposals for the uplift in Metro fares to cover inflation cost pressures have been developed to constrain the average increase that does not exceed the July 2015 RPI inflation index. Proposals are being considered by the Tyne and Wear Sub-committee at its November meeting in relation to the price of the Gold Card and children fares. An increase in the Tyne Tunnel Tolls to maintain the level of the tolls in real terms and minimise the annual deficit on the Tunnels account, will be delayed from 1 January to April or June 2016;
 9. The detailed budget report in January will include the outcome of consideration of the level of resources needed to provide capacity to deliver the objectives of NECA. At this stage it is envisaged that current contributions from constituent councils (Corporate costs (£300,000), Inward Investment (£140,000) and LEP Match funding (£250,000)) will be maintained at this level; with any additional expenditure in these areas funded by increases in other funding, budget savings and additional interest on revenue balances/cash flow. This additional funding, including the additional funding for Inward Investment Activities will be the subject of the Budget report in March 2016; and
 10. NECA will need to set out a balanced budget for 2016/17, 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; and
 - e) Agree that a budget provision of up to £0.5m be established to be available in the current year in order to progress urgent activity related to the Devolution agreement work streams. The funding to be found from temporary use of reserves, interest on cash balances and any savings on budgets in the current year.

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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 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**

The proposed Devolution agreement with Government, signed by the Combined Authority Leadership Board on 23 October, brings a radical devolution of funding, powers and responsibilities for employment and skills, transport, housing, planning, business support and investment from central government to the North East. The proposed agreement builds on the ambitions set out in the North East Strategic Economic Plan.

- 3.4 The North East Strategic Economic Plan which was published in April 2014 is focused on delivering 'More and Better Jobs'. It identifies six strategic themes aimed at addressing the challenges facing the area and delivering the objectives of the SEP. These strategic themes are –
1. **Innovation:** central to the ambition of better jobs and a more competitive business base, delivering medium term benefits as managers invest in new products, processes, markets and technologies supported by an ambitious open innovation system.
 2. **Business support and access to finance:** the key driver for more jobs and a strong private sector, addressing market failures to support a stronger indigenous businesses, with better access to finance, and able to progress expansion plans in national and international markets.
 3. **Skills:** providing a demand led system, reflecting the need of employers, including for high level skills in support of better jobs, with access to high quality training facilities for both general and specialist training.
 4. **Inclusion:** central to ensuring no one is left behind, providing targeted and tailored support to neighbourhoods and groups facing major challenges in accessing training and employment opportunities, which let everyone fully share in the benefits of a growing economy.

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5. **Economic assets and infrastructure:** developing the places for business to invest and people to live, developing new opportunities with towns and cities, coast and country, and heritage assets.
 6. **Transport and digital connectivity:** which serves and connects people and businesses, letting people move around for both work and leisure, and connecting the North East to the national and international economy.
- 3.5 The Revenue Budget and Capital Investment Programme of NECA will contribute to the achievement of these objectives, as illustrated below.
- 3.5.1 It is vital that the local resources available are used to best effect on projects that make a demonstrable contribution to economic growth in the region within the context of an agreed plan and that opportunities to increase the level of available funding are explored and developed further to maximise the opportunities of future funding bids. It is therefore important that the governance arrangements established to make decisions on resource allocation are able to properly reflect the priorities of local people and businesses.
- 3.5.2 The establishment of a Strategic Investment Fund is a critical element to co-ordinate and make best use of the resources available. The proposed Devolution agreement would add £30m a year into the Strategic Investment Fund, which would also be increased by a successful Enterprise Zone bid that can fund the necessary interventions from retained business rate growth; and any additional Local Growth Funding grant. This will be the subject of future reports, with an update on available funding in the January Report and approval of specific projects being considered by the Leadership Board once funding is confirmed in future reports from March 2016 onwards.

European Funding

- 3.5.3 The proposed Devolution agreement states that the Government will delegate to the North East Combined Authority project selection powers for the European Regional Development Fund and the European Social Fund. The Combined Authority will be granted Intermediate Body status to deliver these delegated powers. This will allow the North East to integrate and align investments with other aspects of the devolution deal, to select projects for investment, to improve performance and maximise economic impact. The Government will work with the Combined Authority to agree the detail of this delegation and, subject to agreement; it is expected to begin from April 2016.
- 3.5.4 A key action will be the creation of the capacity needed to undertake the European Funding activity including any new responsibilities for European funding. The current activity, which is supported by the LEP executive team, will need to be expanded. The cost of this capacity is expected to be met from LEP core budgets, European Technical Assistance funding and in-kind secondment(s). There is the potential need for matching funding and this will need to be identified as part of the budget process.

3.6 Innovation Theme

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- 3.6.1 In the context of the Adonis Review challenge to develop the North East as “*an exemplar of smart specialization and open innovation systems and practice*”, and significant evidence work to understand our innovation assets and challenges, the SEP sets out a strategic approach to investment of Local Growth Fund (LGF), European Structural and Investment Fund (ESIF) and other resources to facilitate effective innovation activity.
- 3.6.2 It prioritises investment into building innovation leadership, developing the effectiveness of our hubs and networks and delivering strategic investment to foster innovative businesses, clusters and a wider innovation culture. Within the Innovation Theme the following specific projects investment are planned for 2015/16 and 2016/17:

Local Growth Fund

Project	Total value	2015/16	2016/17
Centre for Innovation in Formulation, led by the Centre for Process Innovation (CPI), based at NetPark	£7.4 m	£0.82 m	£4.65m
Low Carbon Energy centre, to be based at Newcastle Science City	£5.6 m	£0.44m	£2.36m
Newcastle Life Sciences Incubation Hub to be based at Newcastle University	£5.6 m	£0.35m	£4.50m
NETPark Infrastructure Phase 3	£6.8 m	£0.31m	£2.11m
Sunderland Enterprise and Innovation Hub, to be hosted at Sunderland University	£3.5 m	£2.00m	£1.77m

- 3.6.3 Innovation activities will be also supported from other key programmes in the SEP/ESIF through liaison with other theme leads - including from:
- Business support targeting innovation support to NE businesses
 - Access to finance, in particular the funds planned within Jeremie 2 for Proof of concept and prototyping
 - Low Carbon Innovation projects in areas like energy and low carbon vehicles
 - High level skills

3.7 Business Support Theme

Aims

- 3.7.1 The Business Support and Access to Finance Programme will, through the work of the NELEP, the Combined Authority and their partners, support a dynamic and entrepreneurial Combined Authority area in which businesses and individuals have the ambition and confidence to develop and grow.
- 3.7.2 The programme is intended to be delivered in the short and medium term through its three inter-related intervention areas. Each intervention area has its own programme management and governance arrangements. These arrangements need to link effectively with each other. They also need to link

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with the programme management approach for the Innovation and Skills Programmes.

The Programme

3.7.3 The programme has three strategic priorities for investing in and growing our businesses:

1. **Access to finance:** Increasing GVA and employment in North East businesses through the provision of a high-quality, demand-led business development programme. Through this component, the NELEP, the Combined Authority and partners will ensure the right mix of financial products is available to support business formation and growth, generating additional employment and GVA in the Combined Authority area.
2. **Business Support:** Ensuring North East businesses have access to finance necessary to support their growth and expansion plans. Through this component, the programme will support business growth and increase entrepreneurial activity by providing businesses in the Combined Authority area with those services that enable them to improve productivity and increase employment and trade
3. **Trade & Tourism:** Increasing the economic benefits from external markets through exports and tourism. The programme will increase the number of businesses exporting and the North East's presence in key international markets.

Interventions and Projects

3.7.4 Within the North East LEP Business Support Programme, the following specific interventions and projects are planned for commissioning or delivery in 2015/16:

Local Growth Fund

Project	Total value	2015/16 Investment
North East Growth Hub	£0.5m	£0.5m

European Regional Development Fund (ERDF) and European Agricultural Fund for Rural Development (EAFRD)

3.7.5 In addition to the LGF Growth Hub award, the Business Support and Access to Finance theme programme is being developed and relies heavily on successful bidding for European Funding for delivery. Key projects for ERDF include Access to Finance from SMEs to support growth and innovation and coordinated business support. Key projects for EAFRD focus on tourism, market towns and the rural growth network.

Trade & Tourism

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3.7.6 Whilst the trade element of the Business Support Programme is reasonably well defined, further work is underway to identify how best to promote our key regional assets.

Inter-relations with other SEP Programmes

3.7.7 Business support activities will be also supported from other key programmes in the SEP/ESIF including from:

- Innovation support providing specific business support for NE businesses, particularly through activities to support bringing new products and business processes to the market and including development of incubation space (through ERDF).
- Support for Low Carbon and Sustainability projects which increase the role of the low carbon energy economy and energy generation sector, including programmes to support business energy efficiency, low carbon supply chains, resilience and renewable energy generation (all through ERDF).
- Support for intermediate, technical and high level skills (all through ESF) and including specific activities for start-up, entrepreneurship and self-employment.
- Enterprise Advisers, to be funded through the Local Growth Fund.
- Inward investment support provided by the local authorities, UKTI and coordinated through the Combined Authority.
- Programmes of employability and skills improvements to overcome barriers which prevent access to the labour market (all through the European Social Fund (ESF)).

3.7.8 Liaison between the Business Support Board and the Innovation, Skills and Employability and Inclusion Programmes (governance structures and executive support) is ongoing to ensure that the provision through these programmes is appropriate, joined up where necessary and contributes to SEP Business Support objectives.

3.8 Skills Theme

Aims

3.8.1 The Skills Theme aims to shift the skills market in the North East towards higher skill levels and greater demand for higher skills, with an emphasis on economic demand, be it existing employer needs, projected shortages, or new skills sets for emerging opportunities, and to create a landscape where companies (and individuals), realise the benefits of training and see the returns on their investment. The main objective of the programme is to deliver an investment plan against three key priority areas for Skills:

1. Oversee and influence investment in skills supply and demand to enable the skills system to deliver better economic outcomes. Establish clear, evidenced based policy priorities for investment and action on skills. The main activities for the NELEP will be to:
 - Create and implement the investment framework for £113m of ESF, manage a complex set of Opt-in arrangements and commissioning

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routes for the skills programme. Direct and secure other resources to core priorities, e.g. Higher Education Funding Council for England (HEFCE), private sector.

- Use the Skills pilot to shift provision funded through the National Adult Skills Budget to deliver more economically focussed outcomes for learners in the north east. Improve performance management of delivery of mainstream skills provision in the Area.
 - Direct working with employer groups and provider base to better link supply and demand and enable improved responsiveness to investment opportunities, in particular the increasing number of opportunities arising from the Skills Funding Agency (SFA).
2. Focus on Young people – deliver a North East Education Challenge to improve educational outcome and school quality. Deliver a programme of Enterprise advisers as an early adopter area for national policy.
 3. Skills Capital – Ensure high quality training facilities which help engage employers and learners are available to support a higher skilled workforce. On-going programme management of the LGF investment in the skills capital programme for the North East. Support the appraisal process for the 5 shortlisted skills capital projects and ensure a robust pipeline for slippage and future funding.

The Programme

3.8.2 The headlines to the Skills Programme in 2016/17 will be:

- Education Challenge
- Skills Pilot
- Deliver the LGF capital programme
- Enterprise Advisers Scheme

Project Title	Total project cost (£m)	LGF 2015/16 (£m)	LGF 2016/17 (£m)
Tyne Met College - STEM and Innovation Centre	1.20	1.00	-
Facilities for Marine and Offshore Engineering, South Tyneside College	3.35	1.10	-
Rural Skills Development, East Durham College	11.11	9.32	0.68
Port of Blyth Offshore and Wind Energy Training Facility (BEACH)	1.20	0.40	-

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- 3.9.1 Over the next year, the investment in Employability and Inclusion will be based on the roll-out of the initial phase of the next round of European Social Fund (ESF). This funding will:
- Provide additional and more intensive support to help people to develop the skills needed to move towards work, enter work (including self-employment), and to progress in work
 - Help older workers, workless people and those facing redundancy to upgrade their skills, learn new skills or retrain to enter, re-enter or stay engaged with the labour market and adapt to new market conditions including through targeted apprenticeships linked to economic opportunities
 - Support activities to reduce the number of young people not in employment, education or training and those at risk of disengaging and embed opportunities to raise ambition
 - Support activities to tackle the multiple barriers faced in a holistic and integrated way to avoid problems becoming entrenched through specific targeted interventions
 - Targeted activities to support bottom-up social inclusion through community focused actions in particular geographic locations with high levels of deprivation, poverty and exclusion
 - Targeted activities for those with protected characteristics and from specific communities who face multiple barriers and facing high levels of exclusion from opportunities and/or poverty
- 3.9.2 As part of this initial phase, up to £1.7 million will be released to support the delivery of the Mental Health Trailblazer. Announced as part of the North East Growth Deal, the trailblazer will work with Government to design and develop mental health and employment integration to inform future national and local support for people with mental health conditions. This represents a significant opportunity for NECA to demonstrate its capacity and capability to work in new ways with the Government and develop an initial platform of devolved powers.
- 3.9.3 Another strategic priority is to ensure that young people are equipped and qualified to access the opportunities which will be available in a successful modern economy. To this end, NECA is coordinating the North East Youth Contract. Five of the local authorities within the Combined Authority successfully secured £4.5 million from the Government's Youth Contract programme. This resource is being used to launch a high-profile campaign to encourage employers to provide a chance for young people to succeed; provide employers with dedicated advisers to help simplify the process of recruiting young people; developing a new and shared "Young People's Commitment" that will provide a clear offer of support to all young people who are unemployed or NEET for 3 months, in return for their commitment to fully engage with the scheme; and strengthening the network of Employment Advisers and Peer Mentors for those young people with the greatest needs.

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3.10 Economic assets and infrastructure

3.10.1 Local authorities are continuing to invest resources in a variety of infrastructure projects that are essential if the region and its businesses are able to compete in an increasingly competitive global environment. Recently, significant resources have been applied to key developments across the region including the Enterprise Zones in Northumberland, Sunderland and on Tyneside all of which have attracted interest and investment from private sector users.

3.10.2 Significant additional infrastructure funding will be secured through the Devolution agreement and from the results of our bid for additional Enterprise Zones, which should be announced this month, as well as future bids for Local Growth Fund and other funding opportunities. It is important that we progress the development of project pipelines working with other authorities and with private sector partners towards the development of a strategic investment plan for the region. The aim will be to develop a plan that shows how resources will be used to build on the opportunities to grow the economy and demonstrate a clear alignment between the different planned investments including those associated with transport, economic development and business growth; housing and energy and digital infrastructure.

3.10.3 The Growth Deal announced last year included substantial infrastructure funding from 2015/16 and 2016/17. This will be considerably enhanced by the funding secured from the proposed Devolution deal; which included an opportunity to bid for a five year Local Growth Funding package; as well as potential new enterprise zones as part of the current bidding round, which is due to be announced shortly.

3.10.4 Government funding schemes and other programmed investments by government agencies continue to play a crucial role in supporting the efforts of local public and private sector partners to provide the environment in which businesses are able to grow and create the jobs needed in the local economy. The successful Growth Deal bid announced in July allocated a total of £298.3 to support economic growth in the region, including £24m towards three strategically important economic infrastructure projects that will enable the region to build on the opportunities such as those presented by Hitachi's investment in Newton Aycliffe and £28.9m towards five infrastructure developments that will support the growth of innovation in the region (listed in the table associated with paragraph 3.6.2 above).

Local Growth Fund (LGF) Projects

Project Title	Total Cost	LGF 2015/16	LGF 2016/17
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	(£m)	(£m)	(£m)
Swans Wet Berth Infilling	18.00	0.40	6.10
Infrastructure for Merchant Park	13.00	8.36	1.64
North East Rural Growth Network	22.50	1.75	2.14
Totals	53.50	10.51	9.88

3.10.5 The new European Structural and Investment Fund programme with an estimated £380m available over the programme period (2014-2020) will also provide resources that can be used to co-fund investment in the region's economic infrastructure, particularly that associated with the low carbon sector as well as strategic sites and premises for SMEs, and to support the wide policy programme of the SEP. An element of match funding for ESI funds will be required from other funds. A proposal to use European resources as a platform for a capital investment fund (building on the JESSICA model) supported by the European Investment Bank and private investors represents a significant potential opportunity for the future.

3.10.6 It is vital that the local resources available are used to best effect on projects that make a demonstrable contribution to economic growth in the region within the context of an agreed plan and that opportunities to increase the level of available funding are explored and developed further to maximise the opportunities of future funding bids. It is therefore important that the governance arrangements established to make decisions on resource allocation are able to properly reflect the priorities of local people and businesses.

3.10.7 The establishment of a Strategic Investment Fund is a critical element to co-ordinate and make best use of the resources available. This will be the subject of future reports, with an update on available funding in the January Report, with approval of specific projects being considered by the Leadership Board once funding is confirmed in future reports from March 2016 onwards.

3.11 Transport and Digital Connectivity

3.11.1 Excellent transport links are fundamental to the economy of the North East Combined Authority area. The importance of transport connectivity is highlighted in the North East Local Enterprise Partnership's Strategic Economic Plan (SEP) as a crucial element in our growth agenda, helping to close the gap in the employment rate with other regions of England, link people to jobs and key services and enable businesses to move their goods quickly and efficiently.

3.11.2 The Combined Authority has a duty to ensure good public transport provision. Public transport plays an essential role in connecting people to jobs and key services. Promoting the use of more efficient modes of public transport also facilitates sustainable growth. Public transport accessibility in the north east is

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generally good. However, better connections to key employment sites from areas of deprivation and improved fares and ticketing options are required.

- 3.11.3 Nexus, the Tyne and Wear Passenger Transport Executive, along with Durham and Northumberland county councils aim to improve quality of life by creating better public transport networks. Nexus is currently pursuing three major programmes; the Bus Strategy, smart ticketing and Metro: all change.
- 3.11.4 The Combined Authority also has a key role to play in encouraging investment in our wider transport infrastructure. In addition to advocacy for a transatlantic connection from Newcastle International Airport Limited and close working with the Highways Agency and Network Rail to encourage further investment in our strategic road and rail networks a focused package of investment on local networks to facilitate further investment by government in our national infrastructure is a key component of our Strategic Economic Plan.
- 3.11.5 The transport proposals in the North East SEP contain investment for both the A1 and A19 corridors, with packages designed to complement existing investment such as the current A1 Western Bypass Lobley Hill to Coalhouse junction scheme, and to facilitate improvements to important trunk road junctions, such as the A19 at Testos and Silverlink.

Growth Deal Transport Projects

Project Title	Total project cost (£m)	LGF Total	LGF 2015/16 (£m)	LGF 2016/17 (£m)
A19/A194/A1300 Lindisfarne Roundabout	4.00	3.48	0.72	2.76
Central Metro Refurbishment	7.88	2.51	2.51	0.00
Northern Access Corridor - Osborne Road to Haddrick's Mill	17.93	4.43	0.50	3.93
Local Sustainable Transport Fund Package	7.52	7.50	3.80	3.70
A19 employment corridor access improvements (North Tyne)	4.70	4.70	0.70	2.20
A191 junctions including Coach Lane and Tyne View Park	1.50	1.50	0.80	0.70
Newcastle Central Station to Stephenson Quarter	10.00	6.00	1.00	3.00
A1056-A189 Weetslade roundabout improvements and A1-A19 link (A1056)	4.80	4.33	0.68	1.40
Six Majors - South Shields Transport Hub	13.60	6.90	1.60	4.83
Six Majors - Sunderland Low Carbon Zone	13.50	5.95	2.80	3.20
Six Majors - A1058 Coast Road	7.20	6.52	4.04	2.48
Six Majors - A167 Park and Ride corridor	7.46	4.99	0.00	4.09
Six Majors - Northern Access Corridor (Cowgate to Osborne Rd)	8.10	4.09	2.00	2.09
Six Majors - Horden Rail Station	7.10	3.34	0.00	3.34

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- 3.11.6 NECA is working with NELEP and the delivering councils to identify ways that funding flexibilities can enable early delivery of approved projects and the development of plans and bids for future projects.
- 3.11.7 While the Transport Revenue Budget and levies proposed for 2016/17 will reduce in cash terms, as they contribute to the delivery of national funding cuts, this will be achieved through efficiency savings and use of reserves to protect service outcomes, as well as meeting the increasing costs of statutory concessionary travel.
- 3.11.8 At a time when transport services are having to be cut in many parts of the country the protection of transport service outcomes alongside the investment in improvements to transport and highways infrastructure will help contribute to the outcomes of Inclusion, Transport and Connectivity.
- 3.11.9 We have an existing broadband improvement project covering much of the North East through the Broadband Delivery UK (BDUK) initiative. The Combined Authority will be looking to support this to maximise its coverage by using money from the European Programme from 2015.

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 2016/17. 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 2016/17 Budget for NECA in the context of as much information as possible over a five year Medium Term Plan period. For NECA, uncertainties of Government funding for 2016/17 and future years, both in terms of potential grant cuts as part of the national Austerity measures and additional funding from the Devolution proposals, make it impossible to develop a medium term plan budget in January while allowing sufficient time for consultation.

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- 4.4 It is therefore proposed that the 2016/17 base Revenue Budget and Capital Programme is developed as a transitional base budget on the basis of known information, to meet the statutory timetable requirements for setting Transport Budget and Levies and contributions from constituent councils. The base Revenue Budget and Capital Programme can be increased in March and during the year by the Leadership Board to reflect any additional expenditure and funding after the appropriate consultation has taken place.
- 4.5 Ambitious major transport and infrastructure projects and programmes supported by funding secured by the Devolution agenda can have a long planning, design and implementation period. Development of projects will take place over the next few months to form the programme needed to help achieve the Strategic Long Term policy objectives of the Combined Authority. It is proposed that a longer term strategic view of investment over a 15 to 20 year period be developed. It is anticipated that this will take significant time and resources to put in place, so an update on the process will be given in January. Developing longer term plans will assist with future bids to secure the additional resources needed to achieve the SEP objectives.
- 4.6 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.
- 4.7 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.
- 4.8 Leaders have made clear the need for a budget to underpin the delivery of policy priorities including the delivery of the Strategic Economic Plan, which must also take into account the constraints on revenue budgets imposed by national austerity measures. 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 2016/17 Budget Report for consideration in January 2016.
- 4.9 The timetable for developing the 2016/17 Budget and the Medium Term Financial 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. Further consideration needs to be given to the

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various steps in the process and the route through the various Officer/Leaders meetings, NECA Transport Committees, Overview and Scrutiny Committee, NELEP Board and the NECA Leadership Board. In some case meeting dates have still to be confirmed and these will be confirmed and included in the schedule when they are known.

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 grant levels for local government will be subject to the outcome of the Spending Review to be announced on 25th November. The Chancellor recently announced that the Department of local Government and Communities was one of four Departmental settlements that had been agreed, with an average funding cut of 30% over the parliament. It is still unclear when the detailed allocations of grant for councils and Nexus in 2016/17 will be announced and some figures may not be known until late in December, possibly as late as 16th December and at this stage it is not yet known how much information will be provided about future years' grant funding.
- 5.2 The Government has made more resources available nationally to help deliver improvements to infrastructure transport and economic development through Growth Deal Funding and the bid previously submitted by NELEP and NECA was particularly successful, with indicative funding amounted to £289m including £79m provisionally allocated for 2016/17. The grant confirmation letters are expected to be signed off shortly after the Spending Review, hopefully in time to be fully reflected in the January Budget report.
- 5.3 The Summer Budget indicated that public spending cuts in 2016/17 would be lower than that previously anticipated, but that there would be continuing significant funding cuts over the next four years. The recent announcement that Revenue Support Grant (which includes funding for concessionary bus travel) could be cut completely by the end of the Parliament, with councils retaining 100% of their business rates also raises significant uncertainty and the potential for additional cuts falling on the councils in the NECA area unless a satisfactory equalisation adjustment can be put in place.
- 5.4 At present the seven constituent councils in NECA receive Revenue Support Grant (RSG) of £427m, which is 4.45% of the national total of £9.6bn. The seven councils contribute £301m of Business rates to the Government as their central share, which is only 2.7% of the national total of £11.3bn. As business rates will increase with inflation the amount that could be transferred to councils should increase slightly. As the national RSG total is cut further the transfer of business rates will be significantly more than RSG. This means that to be fiscally neutral the Government will have to cut other grants – such as New

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Homes Bonus, Public Health and other S31 grants, although the details of which grants would be cut has not yet been announced.

- 5.5 The implications of the announcement of cuts in funding will be analysed and reported to the Leadership Board in January. Councils have estimated cuts in RSG of around £100m next year, with a reduction in spending power averaging around 4% or so. The assessment of cuts in future years will be considered as part of a Strategic review of the Funding for Transport in 2016, taking into account the options now available for NECA for the delivery of the bus strategy. Any options for cuts in discretionary services from 2017/18 onwards would be subject to a consultation process next year.

6 DEVOLUTION AGREEMENT FUNDING

- 6.1 The Devolution Agreement is the subject of a separate report. There are key elements of this which will impact significantly on funding for 2016/17 and future years. Measures which will or could impact on the 2016/17 budget include –

- A new £30 million a year funding allocation over 30 years, to be included in the NECA Investment Fund and invested to boost growth;
- An opportunity to bid for a single allocation of the Local Growth Fund to support a programme of investment, including an element of flexible revenue funding, committed over a 5 year period;
- A scheme which will enable the Combined Authority to retain all business rate growth that would otherwise have been paid as central share to government, above an agreed baseline, for an initial period of five years. Government and the Combined Authority will also discuss wider localisation of business rates;
- The North East will receive additional Enterprise Zones and/or extension of existing zones, subject to the current bidding round for further Enterprise Zones;
- Devolve a consolidated local transport budget with a multi-year settlement to be agreed at the Spending Review, including all relevant local highways and sustainable travel funding;
- The Spending Review will identify a fair level of revenue funding for those functions over the Spending Review period, in the form of a place-based funding settlement for the North East Combined Authority
- The costs of the Mayoral Combined Authority will be met from within the overall resources devolved to the Combined Authority.

7 BUDGET PROPOSALS

7.1 Capital Investment / Expenditure

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- 7.1.1 The approved capital investment programme in the current year is £115.963m, mainly made up of Metro Asset Renewal Programme and Local Growth Deal projects, summarised in Appendix 3. Initial estimates for 2016/17 indicate that this is likely to rise to over £136m, mainly as a result of the additional funding for transport and infrastructure announced as part of the Growth Deal. The programme is expected to increase significantly as a result of a successful Enterprise Zone bid and the funding announced as part of the Devolution Agenda.
- 7.1.2 The Local Transport Programme Integrated Transport Block has been announced for 2016/17 at £13.949m (subject to any revision following the Spending Review), the same level as the grant in 2015/16. The basis for distribution will be subject to discussion at the next meeting of the North East Combined Authority Transport Officers Group.

7.2 Transport Revenue Budgets and Levies for 2016/17

- 7.2.1 Revenue transport budgets in 2015/16 amounted to £89.177m. Indicative changes identified so far for Durham, Northumberland and Tyne and Wear would involve a net reduction in this budget of £2.5m (-2.9%), while protecting service outcomes in 2016/17, but with cuts in services anticipated from 2017. This would give an estimated budget and levies for 2016/17 of £86.7m. Given the significant national higher pressures of funding cuts, this demonstrates the importance and high priority given to Transport in the region.
- 7.2.2 The 2016/17 budget will need to reflect the requirement to maintain the Regional Transport Team. The team is currently resourced using a mix of funding sources, including a topslice of the allocation received for Local Transport Plan activity, capital funding from the programme management element of the LGF and contributions from individual local authorities and the LEP. The Combined Authority Transport Group is developing a proposition on the level of resource required for the team and the way in which it should be funded. This will reflect the new governance and working arrangements established for the Combined Authority and the range of transport responsibilities it now holds. This work will be used to inform the detailed budget proposal that will be considered by the Leadership Board in January.

Durham County Council

- 7.2.3 The budget and levy for public passenger transport activity in County Durham is expected to be in the region of £15.342m for 2016/17. This compares with an original budget of £16.076m for 2015/16 and a revised forecast for 2015/16 estimated at £15.131m. The budget and levy for 2016/17 is summarised in the table below.

Durham Transport Budget and Levy 2016/17

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	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Grant to Durham			
Concessionary Fares	11,728,380	(9,000)	11,719,380
Subsidised Bus Services	4,610,862	(1,788,664)	2,822,198
Bus Stations	453,258	(311,100)	142,158
Bus Shelters	31,040	(44,460)	(13,420)
PT Information	182,614	(94,568)	88,046
Staffing	594,614	(16,368)	578,246
Total Grant	17,600,768	(2,264,160)	15,336,608
Share of NECA Transport Costs	4,939	0	4,939
Transport Levy	17,605,707	(2,264,160)	15,341,547

7.2.4 The overall bus network in County Durham remains fairly stable. There are no significant commercial changes expected in 2016/17 and only a small number of planned contract renewals. However, in contrast to last year's growth we are now seeing a marginal decline in overall patronage figures; we are also anticipating some modest pressure on contract costs due to the introduction of the National Living Wage.

7.2.5 The budget for subsidised bus services has been reduced by £400,000 in line with Durham County Council's Medium Term Financial Plan for 2016/17. The budget saving will be realised through a combination of efficiency savings and a reduction in costs following contract retendering. The focus of spend continues 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.

7.2.6 The budget for concessionary fares continues to be subject to pressure from fares increases. However, a combination of the effects of the rise in entitlement age, a stabilisation of concessionary travel journeys and successful negotiations with bus operators in relation to reimbursement costs have led to a modest reduction in this area of the budget for 2016/17.

7.2.7 The other main area of work for the transport team in Durham will be to continue to deliver efficiency savings against the home to school transport and adult social care transport budgets. A full review of transport entitlement, commissioning and procurement is ongoing, together with a pilot scheme looking at post 16, health and mainstream transport under the governments Total Transport initiative

Northumberland County Council

7.2.8 The Budget and Levy for public passenger transport activity in Northumberland is expected to be in the region of £6.159m for 2016/17. This compares with a budget of £5.901m in 2015/16.

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7.2.9 The indicative budget for 2016/17 has increased to reflect inflationary pressures in delivering the Concessionary Travel Scheme and the reinstatement of a proposed saving to the Scheme following an audit of the use of disabled passes. The budget for Bus Services will be protected at its current level in cash terms, and no significant investment in the county's bus stations is planned for 2016/17.

Tyne and Wear

7.2.10 A proposal is being developed in more detail for consideration by Tyne and Wear Sub Committee which would see the Transport Budget and Levy for Tyne and Wear being set at £65.120m, if there is no significant reduction in the Metro Rail Grant This is a reduction of £2.080m on the Levy in 2015/16, achieved by efficiency and other cost savings in the former ITA and Nexus Budgets and the use of former ITA reserves. This will maintain service outcomes while further improving the value for money provided to districts and help them to meet national funding cuts.

7.2.11 The distribution of the Levy within Tyne and Wear is based upon population and the levy will reflect changes in population as well as the cut in the overall amount. The indicative levy for 2016/17 for each of the Tyne and Wear districts is shown below.

District	Population (2014 Mid Year Estimates)	2016/17 Levy	Saving compared to 2015/16
Gateshead	200,505	£11,671,345	(£397,749)
Newcastle	289,835	£16,871,122	(£437,299)
North Tyneside	202,744	£11,801,677	(£397,403)
South Tyneside	148,740	£8,658,118	(£304,843)
Sunderland	276,889	£16,091,813	(£568,531)
Total	1,118,713	£65,120,000	(£2,080,000)

7.2.12 This reduction would bring the overall annual transport levy reduction since 2010 to £13m, 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. However it is now highly likely that to set a balanced budget in the medium term, cuts in services would need to be implemented from 2017.

7.2.13 The levy is used to fund NECA costs as well as providing a grant to Nexus to fund transport services. The allocation of the levy is proposed as follows.

	2015/16 £	2016/17 £	Change £

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NECA Transport Costs	2,700,000	2,620,000	(80,000)
Grant to Nexus	64,500,000	62,500,000	(2,000,000)
Total Levy	67,200,000	65,120,000	(2,080,000)

7.2.14 Savings on the former ITA element of the NECA budget include savings in pension and capital financing costs, reduction in support costs following the creation of NECA and some use of reserves. The Nexus savings will be achieved by efficiency savings and use of reserves and budget cuts which minimise the impact on service outcomes in 2016/17. The use of one off savings in 2015/16 of up to £1m will help to fund the cut in the levy in 2016/17.

7.2.15 The Nexus Budget is balanced by planned use of reserves pending the delivery of further savings in future years, which will be subject to a Strategic Review of Transport funding next year. This will identify the level of the Levy that Councils can afford and the cuts in discretionary services that would be needed to set a balanced budget, for consultation next year. Further details of the NECA Transport and Nexus Budgets will be reported to Transport North East Committee and Tyne and Wear Sub Committee for consideration.

7.3 Economic Development / NELEP Capacity

7.3.1 The NELEP core team is part funded from a Government contribution matched by a contribution from the constituent authorities. The Government has still to announce the continuation of their £250k grant in 2016/17. Match funding will continue to be provided and is funded by equal contributions from the seven constituent authorities. It is important to secure certainty about the available funding over the medium term period, to ensure that effective capacity can be maintained to deliver the SEP project and programme related activity. Additional funding sources are also being identified to cover project and programme related activity.

7.3.2 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.

7.4 NECA Corporate Costs

7.4.1 The NECA budget for Corporate Costs was increased to £300,000 in 2015/16. It is now clear that forecast expenditure to the year-end will exceed this level, and the balance of costs in 2015/16 will need to be funded from interest on cash balances, savings in other budgets and reserves. An exercise is underway to identify a revised estimate of costs for 2015/16 and the level of the capacity required in 2016/17 and future years. This includes the capacity needed to meet the additional responsibilities that will be placed on NECA as part of the Devolution agenda.

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- 7.4.2 In the current year additional funding is needed in order to provide the internal and external capacity to progress the various work streams related to the Devolution agenda, including work relating to the establishment of the Health and Social Care Commission and public service integration. It is proposed that a budget of up to £0.5m be established for this purpose, with any release of the funding for specific proposals to be agreed under the delegated decision making process, with further details to be reported in the January Budget Report. The funding will be found from temporary use of reserves, interest on cash balances and any savings on budgets in the current year.
- 7.4.3 The main areas of cost relate to support and input from the Interim Chief Executive, Monitoring Officer and Legal costs, Chief Finance Officer and Finance costs, HR support, Internal and External Audit, administration and co-ordination costs continued from previous years and other operating costs. At this stage it is proposed that the current contributions from constituent councils be maintained at the current to a level of £300,000 (£42,857 per authority on an equal shares basis), with additional costs being met from additional funding external funding, including additional interest on cash flow on cash balances.

7.5 NECA funding Flexibilities

- 7.5.1 A number of opportunities have been identified following the creation of NECA to deliver improved funding flexibilities to help achieve economic objectives within the SEP, to deliver treasury management savings for constituent authorities and to boost resources availability to help achieve the SEP objectives.
- 7.5.2 The flexibilities of proposed treasury management arrangements by NECA should help increase surplus resources which can be used to support economic development initiatives and provide capacity to support delivery and the development of major projects and future funding bids. These proposals are currently subject to consideration by the Directors of Resources group and any specific proposals will be included in the January budget report.
- 7.5.3 NECA should also be able to assist with more flexible cash flow management of funding to enable capital investment to be accelerated where this is possible to help achieve the earlier delivery of SEP objectives.

7.6 Fees and Charges

- 7.6.1 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.
- 7.6.2 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. At this stage, the proposal being worked up for

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consideration by the Tyne and Wear Sub-Committee is to increase Metro fares from 2nd January 2016 by a weighted average of 0.4%; this figure is slightly below the level of the Retail Price Index of 1.0% (as at July 2015).

- 7.6.3 This increase is necessary in order to help meet the financial targets required by the Nexus Medium Term Financial Forecast and subject to approval by the Tyne and Wear sub Committee, an estimated additional £0.530m is expected to be generated in 2016/17. This represents increased revenue from fare changes in isolation and does not include any potential changes in the underlying trend of Metro usage, including the potential for an increase in demand associated with the Pop Pay as You go product. A stretch target for Metro revenues will be considered further and reflected in the January 2016 Budget report.
- 7.6.4 The Tyne and Wear Sub Committee will also consider the price of the Gold card, which was significantly reduced in 2014 from £25 to the current price of £12 and will consider the level of the child concessionary fares currently £1.10. for the all Day Ticket and 60p for a single ticket. Their recommendations will be included in the consultation process.
- 7.6.5 In terms of the Tyne Tunnel Tolls, the toll for cars of £1.60 was set in January 2013 and the tolls for Heavy Good Vehicles (HGV) of £3.20 were set in January 2014. The tolls are due to rise to maintain the level of tolls in real terms, keeping pace with inflation as measured by the Retail Price Index (RPI), with increases limited to whole 10p figures and the ratio between HGV and Car tolls being preserved at 2:1. RPI figures are expected to increase over the next few months to reach a level triggering an increase in tolls in summer 2016 to £1.70 for cars and £3.40 for HGVs. This increase would help cover the increase in the payments to the concessionaire which have already increased in line with inflation, and keep the annual deficit in the Tunnels account to a minimum level.

7.7 Reserves and Contingencies

- 7.7.1 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 it looks likely that this reserve will be drawn upon further to fund corporate costs in 2015/16. The revised estimate of the likely outturn level of reserves at the end of 2015/16 is currently being assessed and is estimated to be between £150k and £200k. The required level of the Corporate Reserve 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.

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- 7.7.2 The original Tyne and Wear Transport budget for 2015/16 also included a level of contingency. This will be reduced over the next three years to part fund the proposed cut in the Levy from 2016/17. Other significant reserves are ringfenced for the financing of the Tyne Tunnels, for capital investment or being held on behalf of the Region for the North East Smart Ticketing Initiative (NESTI).
- 7.7.3 Nexus are planning to use some of their general reserves help balance their budget over the next three years. The figure will depend on the spending review outcome and other budget decisions by TWSC.

8 Potential Impact on Objectives

- 8.1 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

9 Finance and Other Resources

- 9.1 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.

10 Legal

- 10.1 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.
- 10.2 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.
- 10.3 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

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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.

11 Other Considerations

11.1 Consultation/Community Engagement

11.1.1 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 2016/17 Base Budget Proposals be reported to the Leaders Board on 17 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.

11.1.2 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.

11.1.3 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 17 November, which will set out the budget proposals in an appropriate format for consultation.

11.1.4 With recommendations for Transport budgets and Levies being considered by committees in December, comments on the initial proposals should be received by 30th December if they are to be reflected in the reports to the Transport North East Committee and by Durham and Northumberland County Councils. Comments on all budget proposals should be received by 4 January 2016 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 19th January.

11.1.5 The late confirmation of funding means that new funding for 2016/17 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.

11.2 Human Rights

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

11.3 Equalities and Diversity

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There are no specific issues arising directly from this report.

11.4 Risk Management

11.4.1 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.

11.5 Crime and Disorder

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

11.6 Environment and Sustainability

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

12 Background Documents

12.1 NECA constitution. Growth Deal announcement – July 2014. Devolution Agreement – October 2015. NECA 2015/16 Budget Report – January 2015.

13 Links to Plans in the Policy Framework

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

14 Appendices

14.1 Appendix 1 : Updated Budget Timetable

Appendix 2 : Summary of Headline Budget Figures.

Appendix 3 : Summary of Capital Investment Indicative Figures

Appendix 4 : Summary of NELEP / European Funding

15 Contact Officers

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

16 Sign off

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

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Appendix 1 : Budget Timetable

DATE	EVENT	ACTION
March 2016	NECA Leaders Board	Consider additional Budget proposals, including those funded from additional devolution funding
January – February 2016	Further Consultation	Consultation on additional funding proposals to be considered in March
? January 16	NELEP Board	Final Budget Report
19 January 16	NECA Leaders Board	Formally Agree Levies / Budget
8 January 16	Paper circulation	Final Budget report Published
December	Meeting with North East Chamber of Commerce	Consultation on Budget and Levy Proposals for January 2016 Meeting
1 December	NECA Overview and scrutiny Committee	Consider Budget Report as part of Consultation Process date to be confirmed
24 November	Transport North East Committee	Consider/Agree Transport Budget / Levy Proposals for consideration by Leadership Board
17 November	NECA Leaders Board	Consider and agree Draft Budget Report for Wider Consultation

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Appendix 2 : Summary of Headline Revenue Budget Information 2015/16 and 2016/17 (Indicative)

	2015/16 Revised Estimate – Net Revenue Expenditure	2015/16 Revised Estimate – Net Revenue Expenditure
	£000	£000
<u>Transport</u>		
Tyne & Wear (Grant to Nexus)	64,500	62,500
Tyne & Wear (non-Nexus)	2,700	2,620
Northumberland	5,901	6,159
Durham	15,131	15,342
Transport Sub Total	88,232	86,621
LEP Executive Core Team – NECA contribution	250	250
Combined Authority Corporate Costs Budget	300	300
Inward Investment	140	140
Total	88,922	87,311

The NELEP are considering their budget figures next month and the figures for use of NELEP funds will be updated when information is available. Detailed figures will be included in the January report

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Appendix 3 : Summary of Headline Capital Expenditure Estimates 2015/16 and 2016/17 (Indicative)

	2015/16 Programme	2016/17 Indicative
	£m	£m
Local Growth Fund – Transport Schemes	30.150	45.670
Local Growth Fund – other	23.760	33.730
Metro Capital Programme	46.261	44.177
LTP Integrated Transport Block, (excluding LTP ITB contribution for match funding, shown above)	12.083	11.309
Tyne Tunnels Capital Programme	3.709	2.000
Total	115.963	136.886

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Appendix 4 : Summary of NELEP / European Funding

North East Investment Fund

The £55m North East Investment Fund managed by the North East LEP includes resource of £25m from the Growing Places Fund (GPF) and £30m from the Regional Growth Fund (RGF). The fund supports capital projects that encourage economic growth and create jobs in the North East LEP area.

Growing Places Fund £25m

All of the £25m is allocated with projects continuing to draw down funds in line with their agreed profiles of spend. Loan repayments have already commenced for a number of projects and will continue in 2016/17 and beyond. Projects supported cover private and public sector led developments including North East Enterprise Zone infrastructure investment.

Regional Growth Fund £30m

As part of the government's RGF Round 3, the NELEP secured funding of £30m, which jointly funds the NE Investment Fund. All funding is now allocated to projects and must be drawn down by the end of the 2015/2016 financial year. A number of development projects have already been completed and loan repayments have commenced in line with their loan agreements.

NE Growth Deal 2015/2021

The North East LEP has secured £289.3 m from the Government's Local Growth Fund to support economic growth in the area – with £53.9m of new funding confirmed for 2015/16 and an indicative allocation for 2016/17 of £78.7m, which has still to be formally confirmed.

A full summary of the North East Growth Deal is available from the following link on the NELEP website;

<http://www.nelep.co.uk/media/7313/north-east-growth-deal.pdf>

European Funding Summary

European Structural and Investment Funds

Context

The European Structural and Investment Funds (ESIF) 2014-2020 are the European Union's main funding programmes supporting jobs and growth across Europe. Four ESIF funds are active in the North East, including European Regional Development Fund (ERDF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF).

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Whilst for the 2014-2020 programme period these are being managed through national Operational Programmes, Government is keen to ensure this funding is focused on local priorities which align with the Strategic Economic Plan. The North East LEP area European Structural and Investment Funds Strategy sets out areas for investment which match the local priorities as set out in the SEP with the European objectives of smart, sustainable and inclusive growth. The strategy, currently being finalised, therefore addresses a wide range of potential activities including innovation, business support and access to finance, sustainable and low carbon growth, employability and inclusion, and skills.

Local sub-committees have been established in each local LEP area to provide advice to the Managing Authorities on local strategic fit and deliverability, using the ESIF Strategies as the framework for investment. These sub-committees sit within the national governance framework with the national Growth Programme Board established to fulfil the function of the Programme Monitoring Committee for ERDF and ESF investments. EAFRD has retained a separate national Growth Programme Board and EMFF is being managed at a national level.

Successful delivery of the programme

Local partners including the North East Combined Authority and North East LEP have a role in supporting delivery of the programme to ensure these successful meet local need and national requirements.

European Structural and Investment Funds largely operate on a call and project application basis. This involves local partners submitting applications for funding to deliver projects, which meet the agreed local strategy and national Operational Programme. To ensure that these applications successfully meet the European framework and local need are deliverable and successful requires additional supporting capacity. This has been provided through individual organisations included a number of local authorities under the current programme. As such support is integral to successfully delivering the funding programmes it can draw on Technical Assistance funding through the ERDF and ESF programmes. For the 2014-2020 programme the Government has made available up to 5% of the Technical Assistance budget available to local partners. Technical Assistance has been drawn on by a number of local authorities and the North East LEP in the current programme and a range of proposals were submitted to the relevant call in 2014 for future use. Advice from the Managing Authority and local sub-committee is for this to be taken forward through a single project application. Partners are working on this currently drawing on identified match funding resource from individual local authorities and the Local Enterprise Partnership budget as set out in the applications to date.

Further to this role in supporting project applications, the devolution deal and proposal for Sustainable Urban Development in the North East both bring additional responsibility to the North East Combined Authority. This due to undertaking the relevant 'urban authority' and 'intermediate body' role. This enhances the ability for local decision making in line with the overall programme. To fulfil this responsibility

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the Combined Authority can also draw on the Technical Assistance funding, again providing 60% or 50% of the required resource to deliver the activities, the match funding for this role remains to be identified following initial discussions with the Managing Authorities. Following advice from Managing Authority colleagues, this may represent around 3-5 FTE posts.

Match funding opportunities – achieving SEP ambitions

The European Structural and Investment Funds represent a strong opportunity to deliver on strategic local aspirations and potential to match fund locally available resources to achieve greater results for the area. There has been a strong, positive response to the initial call areas; however, significant opportunities remain within the programme. Alignment of the approach taken for locally available strategic funding with the ESIF programme will enable projects to achieve better outcomes and achieve local strategic aims. There is need for match funding in some areas where this is likely to prove more challenging despite strong strategic rationale for intervention and across both capital and revenue activities. Match funding relating to revenue activities is in many cases proving more challenging to achieve. This is particularly true in meeting aspirations around innovation, low carbon growth and sustainability as well as ESF activities under inclusion, employability and skills

Other European funding

Whilst the main focus to date has been in maximising the opportunities available through the European Structural and Investment Funds Strategy, European funding includes a wide range of other sources. These include European-level programmes such as Horizon 2020 for innovation, LIFE for sustainability and low carbon and Erasmus+ for education and skills and transnational programmes. Despite a number of examples of successful and positive projects to date, this funding has been underutilised and opportunities to integrate these sources into future will be built into future proposals.

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North East Combined Authority

Transport North East (Tyne and Wear) Sub-Committee

DATE: 24 November 2015

SUBJECT: Draft Transport Budget and Levies 2016/17

REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

This report provides the Transport North East (Tyne and Wear) Sub Committee a summary of the latest information about the draft transport budgets and transport levies for 2016/17 for consideration and comment in order to inform the recommendations to be made in the report to the NECA Leadership Board meeting on 19th January 2016.

RECOMMENDATIONS

Transport North East (Tyne and Wear) Sub-Committee is recommended to:

- a) Note the contents of this report and identify any issues or points to be taken into account in preparing the Budget report to the Leadership Board in January;
- b) Note the transport net revenue budget and Levy of £65.120m proposed for 2016/17 as set out in section 2;
- c) Note the need to set a balanced budget for Nexus over the medium term, which would involve reducing the annual net cost of services by an estimated £7m or more from 2017/18; and
- d) Endorse the proposal to carry out a strategic review of the Transport Budget in Tyne and Wear, taking into account the outcome and impact of the Spending Review, with a view to identify options for reducing service budgets for consultation in 2016 for implementation from 2017 onwards.

North East Combined Authority

Transport North East (Tyne and Wear) Sub-Committee

1 Background

- 1.1 This report sets out a summary of the proposed Tyne and Wear Transport Revenue Budget and Levies for 2016/17 in order that recommendations can be agreed for inclusion in the budget report to the 19 January 2016 Leadership Board meeting. This is a requirement of the NECA constitution and needs to comply with regulations relating to the allocation of Transport Budgets and Levies. Not all of the information needed to complete the budget is currently available, in particular details of Government grant funding, which will be announced after the Spending Review on 25 November and possibly as late as 16 December.
- 1.2 A key external pressure facing councils is the impact of austerity measures and the Spending Review is expected to set out grant reductions for local government of between 25% to 40% over the next 4 years, in addition to the substantial reductions that were made in the last parliament. This includes cuts to the funding that Government has previously provided for Concessionary Travel and other transport services. Councils are facing difficult decisions about all services and the Transport Levy is part of the budget of Tyne and Wear councils, and it will need to be considered for reduction both next year and potentially in future years as well.
- 1.3 Due to uncertainty about external funding, the Leadership Board will set a one year Budget and Transport Levies for 2016/17 at its meeting on 19th January 2016. This was explained in the report to the Leadership Board on 17th November 2015, which set out draft high level budget proposals for consultation. Following informal consultation with members and councils, an overall Transport budget and Levy for Tyne and Wear for 2016/17 of £65.120m is proposed, which represents a reduction of £2.080m (-3.1%) compared with the current year.
- 1.4 Officers consider that this level of savings can be delivered next year mainly through efficiency savings; use of one off savings achieved in the current year, and use of reserves with minimal impact on service outcomes. However, this will add to the significant underlying budget deficit in Tyne and Wear, which is currently being funded from use of reserves to protect service outcomes in line with the budget strategy agreed by members in previous years. This will mean that service budgets will need to be reduced from 2017 in order to achieve a balanced budget over the medium term.
- 1.5 Once the outcome of the 2015 Spending Review is known, and the impact on funding for Tyne and Wear councils can be assessed, this information will be considered by NECA and its constituent Councils as part of Strategic Review

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in the first half of 2016 that will seek to identify:-

1. the estimated level of resource available through the Levy for Transport services over the next four years, taking into account competing service priorities;
 2. how the money that is available is to be used to best achieve the Transport Objectives of NECA and in Tyne and Wear;
 3. What changes in transport services are needed and how the impact on service users can be minimised.
- 1.6 The options and proposals that emerge from this review will form the basis for consultation before decisions are taken next year about the budget for 2017/18 and future years.
- 1.7 This report gives members the opportunity to shape the detailed budget proposals for 2016/17 that will form part of the Budget Report to the Leaders Board on 19th January 2016, after consideration of the views received from consultation.

2 Transport Net Revenue Budget and Levy 2016/17

- 2.1 The proposal for Tyne and Wear would see the Transport Budget and Levy for Tyne and Wear being set at £65.120m, assuming no significant reduction in the Metro Rail Grant. This is a reduction of £2.080m on the Levy in 2015/16, achieved by efficiency and other cost savings in the former ITA and Nexus Budgets and the use of reserves. This will maintain service outcomes next year, while further improving the value for money provided to districts and help them to meet national funding cuts.
- 2.2 The distribution of the Levy within Tyne and Wear is based upon population and the levy will reflect changes in population as well as the cut in the overall amount. The share of a £65.120m Transport Levy for 2016/17 for each of the Tyne and Wear districts is shown below.

Table 1: Share of Transport Levy between Districts

District	Population (2014 Mid Year Estimates)	2016/17 Levy	Saving compared to 2015/16
	People	£	£
Gateshead	200,505	11,671,345	(397,749)
Newcastle	289,835	16,871,122	(437,299)
North Tyneside	202,744	11,801,677	(397,403)
South Tyneside	148,740	8,658,118	(304,843)
Sunderland	276,889	16,091,813	(568,531)
Total	1,118,713	65,120,000	(2,080,000)

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- 2.3 This latest Levy reduction would bring the overall reduction in the annual transport levy since 2010 to £13m, 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. However in order to set a balanced budget in the medium term, it is clear that cuts in service budgets will need to be implemented from 2017.
- 2.4 The levy is used to fund NECA transport costs (formally the Tyne and Wear ITA) as well as providing a grant to Nexus to fund transport services. The allocation of the levy is proposed as follows.

Table 2: Allocation of Transport Levy

	2015/16 £	2016/17 £	Change £	%
NECA Transport Costs	2,700,000	2,620,000	- 80,000	- 3.0%
Grant to Nexus	64,500,000	62,500,000	- 2,000,000	- 3.1%
Total Levy	67,200,000	65,120,000	- 2,080,000	- 3.1%

- 2.5 Savings on the former ITA element of the NECA budget include savings in capital financing costs, a reduction in support costs and some use of reserves. The Nexus savings will be achieved by efficiency savings and use of reserves and budget cuts, which minimise the impact on service outcomes in 2016/17. The use of one off savings in 2015/16 of up to £1m will help to temporarily fund the cut in the levy in 2016/17.
- 2.6 The Nexus Budget is balanced by planned use of reserves pending the delivery of further savings in future years, which will be subject to a Strategic Review of Transport funding next year. This will identify the level of the Levy that Councils can afford and the cuts in discretionary services that would be needed to set a balanced budget, for consultation next year.

NECA – Centrally Held Tyne and Wear Transport Budget

- 2.7 This budget relates to activity inherited from the former Tyne and Wear ITA. 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.
- 2.8 It is proposed that this Budget for 2016/17 be reduced from £2.700m to £2.620m with a saving of £80,000 (3%). Since 2005/06 this budget has reduced by over 40% from £4.499m to its proposed level. The indicative budget for

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2016/17 is summarised in the table below.

Table 3: Centrally Held Transport Budget

	2015/16 Revised Estimate	2016/17 Estimate	Change
	£000	£000	£000
Support Service / staffing	250	245	-5
Administration and Governance	43	43	0
Financing Charges	2,394	2,333	-61
Contingency / Devolution	110	110	0
Total Spending	2,797	2,731	-66
Use of Transport Reserve	-97	-111	-14
Contribution From LEVY	2,700	2,620	-80

- 2.9 The Contingency/devolution budget are one-off items in the budget funded from savings in 2013/14, which increased the level of the transport reserve transferred to NECA. They are funded from the use of the Transport reserve. The base budget excluding these items is a balanced budget. The Tyne and Wear (former ITA) Transport Revenue reserves are estimated to reduce from £0.588m at the start of 2015/16 to £0.380m at the year end. It is possible that the costs relating to Devolution workstreams may be incurred in the current year rather than next year, which would reduce the reserve earlier.

Grant to NEXUS to Provide Transport Services

- 2.10 A summary of the draft Nexus budget for 2016/17 and the use of the Grant from Nexus is set out below, with further details given in Appendix A.

Table 4: Summary of the Nexus Net Budget

	Gross Expenditure	Gross Grants and Income	Net Expenditure
	£000	£000	£000
Grant to Nexus			
Concessionary Travel	49,065	(1,461)	47,604
Metro	93,128	(75,718)	17,410
Ferry	1,556	(556)	1,000
Rail	213	(240)	(27)
Subsidised Bus Services	17,445	(6,134)	11,311
Bus Infrastructure	2,450	(585)	1,865
Retail and Information	4,388	(661)	3,727
Corporate planning	3185	(1,130)	2,055
Sub Total Operations	171,430	(86,485)	84,945
Net Movement in Capital Financing Reserve		(20,801)	(20,801)
Capital Financing	2,349		2,349
Total Nexus Budget	173,779	107,286	66,493
Planned Use of Reserves			3,993

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Transport Grant			62,500
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- 2.11 The operations budgets include capital financing costs, in particular the Metro Budget. There is a net movement of the capital financing reserve of £20.801m, which reduces net operational expenditure. After taking into account the reimbursement of revenue forgone from the Concessionary Travel budget for the carriage of Gold Card holders, this would bring the net expenditure on Metro into a small surplus.
- 2.12 Nexus will draw £3.993m from its revenue reserves, which are estimated to be £12.2m at the start of next year (based on Nexus' Period 6 financial monitoring report for the current year, considered elsewhere on this agenda).
- 2.13 Without the possibility of generating £5m of savings from implementing the Bus Quality Contracts Scheme in 2017/18, and having had its grant from the NECA reduced by £2m in 2016/17, Nexus' budget deficit will grow to an estimated £7m in 2017/18, if action to address the budget imbalance is not taken. Therefore, in order to deliver a balanced budget in the medium term, cuts in services will need to be implemented from 2017. This will be considered as part of a Strategic Review in 2016, which will identify options for reductions in service budgets for consultation during 2016 and implementation from 2017 onwards.
- 2.14 More detailed information about the Nexus budget for 2016/17 is set out in Appendix A.
- 2.15 The discretionary spending within the 2016/17 budget that will be part of the Strategic Review and may be at risk from 2017 includes: –

	£m
Secured Bus Services	11.3
Bus infrastructure	1.7
Retail, Info & Customer Services	4.4
Shields Ferry	0.8
Discretionary Concessionary Fares	11.8
Capital Financing	2.3
	<u>32.3</u>

- 2.16 The two major items of Nexus' gross expenditure that are excluded from the above table are the ENCTS and Metro (save for part the discretionary concessionary fares budget which funds 'revenue forgone' for the carriage of Gold Card holders and Under 16's on Metro). Funding the ENCTS is a statutory obligation placed on Nexus and as already highlighted in paragraph 2.11, Metro generates a small surplus once income it receives from the concessionary fares budget is taken into account.

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- 2.17 After a planned use of reserves of £3.993m in 2016/17 it is estimated that Nexus' revenue reserves would be £8.2m as at 31 March 2017 (based on the 2016/17 indicative budget and the budget deficit as per Nexus' Period 6 financial monitoring report for the current year, considered elsewhere on this agenda). Nexus estimates that it needs to retain a core reserve of £5m to manage uncertainties, cost pressure and other unexpected calls on its revenue budget. In addition, Nexus holds capital reserves, currently forecast to be circa £21m at 31 March 2016 which are earmarked to fund capital investment in Metro.

Tyne Tunnels

- 2.18 The Tyne Tunnels are accounted for as a ringfenced trading account within the accounts of NECA, meaning that it is wholly funded from the tolls and Tyne Tunnels reserves, with no call on the levy or government funding at all.
- 2.19 In 2015/16 the original budget for the Tunnels account had a planned deficit of £1.4m to be funded from the Tunnel Reserve Account. Increased traffic flow in year resulted in increased income. With savings in financing costs, the net outturn for the Account in 2015/16 is estimated to be a reduced deficit of £0.383m. A summary of the Tyne Tunnels account is set out below.

Table 5: Tyne Tunnels Budget

	2015/16 Revised	2016/17
	£	£
Tolls Income	(27,456,700)	(29,243,000)
Contract Payments to TT2	21,658,100	22,277,300
Employees	36,000	36,800
Pensions	55,700	57,600
Support Services	100,000	90,000
Supplies & Services	35,000	35,000
NTC Community Fund	10,000	5,000
Financing Charges	6,419,100	7,465,200
Interest Income	(200,000)	(200,000)
Miscellaneous Income	(34,000)	0
Repayment from ITA for use of reserves	(240,000)	(240,000)
(Surplus)/Deficit on Tyne Tunnels Account	383,200	283,900
Tyne Tunnels Reserves b/f	(28,173,800)	(23,790,600)
NESTI Expenditure	1,000,000	1,000,000
Capital Expenditure funded from Revenue	3,000,000	750,000
Tyne Tunnels Reserves c/f	(23,790,600)	(21,756,600)
(Of which earmarked for NESTI)	2,614,000	1,614,000
Tunnel Reserves at Year end (excluding NESTI)	(21,176,600)	(20,426,600)

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2.20 Tyne and Wear Sub Committee will consider the scheduled toll increase of 10p for cars and 20p for HGVs, with effect from a revised date of 1 April 2016 (as opposed to 1 January 2016) or from 1 June 2016, subject to the increase in the RPI Index enabling the increase to occur. The increase in the level of the Shadow Toll paid to the operator TT2 has already taken place and came into effect from 1 January 2015. The increase in tolls is needed to maintain the tolls in real terms and keep the budget deficit on the Account in 2016/17 down to around £0.284m. An increase with effect from 1st April 2016 has been assumed in the Budget estimates, which would generate income of £1.6m. An increase from 1st June 2016 would generate income of £1.4m, increasing the deficit by around £0.2m. The annual budget deficit will be funded from the Tyne Tunnel Reserves, which are there to meet annual deficits, fund capital expenditure on the tunnels and to help pay off the tunnel debt.

3 Next Steps

3.1 Further consultation on the 2016/17 budget proposals will be taking place during December. The Leadership Board will meet to agree the 2016/17 NECA Budget and Transport Levies on 19th January, taking into account the recommendation from this committee as well as any comments made during the consultation process.

4 Potential Impact on Objectives

4.1 The report sets out the proposed transport finance and resourcing of the Combined Authority to support the delivery of its objectives. For 2016/17 the proposals are aimed at minimising any impact on service outcomes and should have no adverse impact on the delivery of Transport Outcomes. However, the reduction of the levy will potentially have adverse effects from 2017 onwards, which will be identified and consulted upon in 2016.

5. Finance and Other Resources

5.1 The finance implications are set out in detail in the body of the report. The reserves identified in the report are considered to be appropriate to manage risks relating to transport activities of NECA.

6 Legal

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6.1 The Authority has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an Authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

6.2 The treatment of transport costs and their funding through levies are set out in the NE Combined Authority Order and in the Transport Levying Bodies (amendment) Regulations 2014.

7 Other Considerations

7.1 Consultation/Community Engagement

The budget proposals for 2016/17 are currently subject to a period of consultation which includes the North East Leadership Board, Treasurers/Finance Directors meetings, Chief Executives meetings, meetings with individual Councils to discuss detailed budget points, consultation with the North East Chamber of Commerce; budget consultation by constituent councils and consideration by Overview and Scrutiny 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

Financial risks associated with the authority's transport activities, and actions taken to mitigate these, will be factored into strategic risk management processes for the Combined Authority. A key issue is the uncertainty of the impact of Austerity Measures on grants that Nexus and the Councils receive. This will be taken into account at the January Leaders Board. Reserves will be set to help manage risk and will take into account potential risks.

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

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

8 Background Documents

- 8.1 Leadership Board 20 January 2015 - Budget Report 2015/16
Leadership Board 17 November 2015 - Draft Budget Report 2016/17

9 Links to Plans in the Policy Framework

- 9.1 This report has links to the delivery of the Transport plans in the Policy Framework.

10 Appendices

Appendix A : Information relating to Nexus Budget

11 Contact Officers

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

12 Sign off

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

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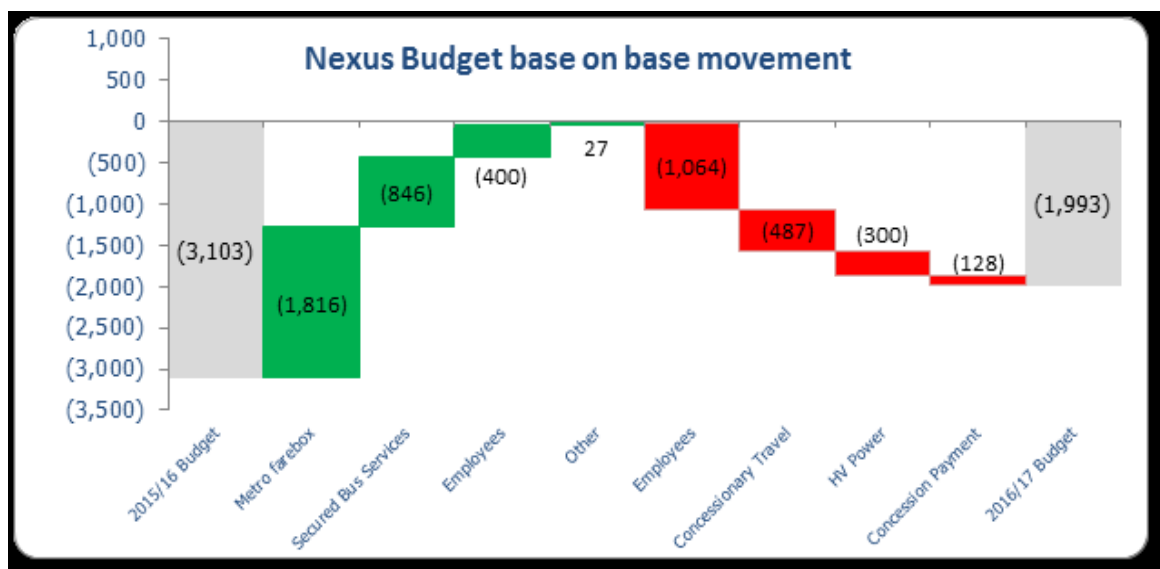
Transport North East (Tyne and Wear) Sub-Committee

APPENDIX A

Nexus Indicative Budget 2016/17

Nexus' indicative budget for 2016/17 was prepared before the outcome of the QCS Board was known and therefore, is currently predicated on a 'standstill' basis i.e. service outcomes will be protected, growth and other cost pressures will be contained and headroom has also been made to reduce the inherent deficit by £1m when compared to the base deficit set for the current year.

The graph below shows the movement 'base on base'.



The cost pressures, shown in red relate to:-

- Employees – reflecting the impact of recent changes in employer national insurance contributions for employers offering 'contracted out' pension schemes; a 1% provision for pay inflation (as per the Chancellors summer 2015 budget announcement) and pay progression for employees on APT&C grades
- Concessionary Travel – a small uplift in costs is required for ENCTS payments due to bus operators as part of the two year negotiated settlements previously reported to the Sub-Committee; however, the majority of this budget pressure relates to the creation of a provision to take account of potential reductions in the sale of scholars passes to local authorities
- High Voltage Power – despite recent reductions in energy consumption, the cost of HV Power continues to increase, putting an estimated cost pressure of £0.3m on the 2016/17 budget

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- Concession Payment – this reflects the contractual obligation Nexus has to increase the cost of payments made to DBTW under the terms of the Metro Operating Concession. At this stage, it is assumed that Metro Rail Grant (revenue) will be in line with previous projections based on the long term funding agreement with the Department for Transport dated 2 February 2010

The areas where Nexus is able to generate additional revenues and/or make savings (at standstill) are shown in green and relate to:-

- Metro Farebox – where growth in passenger numbers and revenues earned in the current year are expected to continue into 2016/17 which together with marketing campaigns and the fares proposal being considered elsewhere on this agenda are expected to increase Metro's income by £1.8m when compared to the 2015/16 base estimate
- Secured Bus Services – where the base estimate for 2016/17 is effectively being adjusted, taking into account efficiencies made in this area since 2014/15
- Employees – the financial impact of Nexus' senior management restructure, implemented between January and April 2015 did not feature in the 2015/16 base budget. The savings generated are a permanent feature of the base moving forward and have been accounted for in the 2016/17 budget

Paragraph 2.13 of the covering report indicates that without the possibility of generating £5m of savings from implementing the Bus Quality Contracts Scheme in 2017/18, and having had its grant from the NECA reduced by £2m in 2016/17, Nexus' budget deficit will grow to an estimated £7m in 2017/18, if action to address the budget imbalance is not taken. Therefore, in order to deliver a balanced budget in the medium term, cuts in services will need to be implemented from 2017. This will be considered as part of a Strategic Review in 2016, which will identify options for reductions in service budgets for consultation during 2016 and implementation from 2017 onwards.

As highlighted in the table at paragraph 2.15 of the covering report, included within the 2016/17 indicative budget are a range of service areas, all of which the NECA has some discretion in directing Nexus to provide.

It should be recognised however, that some areas of expenditure would be difficult or impractical to curtail immediately e.g. the amount expended on paying off Nexus' pension deficit, unfunded depreciation (which is a proxy for loan redemption payments which feature as the Minimum Revenue Provision (MRP) in local authorities' budgets), office accommodation at Nexus House etc.

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In the context of up to £7m of budget cuts needing to be found by 2016/17, it should be recognised that this represents around 22% of Nexus' current levels of discretionary expenditure.

Despite Nexus maintaining service outcomes since it embarked on its pursuit of the Bus Quality Contracts Scheme in 2011, it is important that members of the Sub-Committee understand that a 22% cut in discretionary expenditure will be additional to a range of efficiency savings already achieved by Nexus. Examples include cutting its staffing establishment by over 20% since 2011; reviewing areas of its business in order to identify and remove inefficiencies; the achievement of procurement efficiencies in some of its contract terms and the consolidation of a range of budgets with investment in new technologies and the upgrade of the Nexus asset base driving additional efficiencies.

Further commentary in relation to what is contained within these areas of discretionary expenditure is detailed below:-

- Secured Bus Services - £11.3m, comprising the following types of secured bus services:-
 - i. All day services
 - ii. Scholars services
 - iii. Works / Early Morning services
 - iv. Evenings and weekend extensions
 - v. Route diversions
 - vi. Taxibus and Community Transport
- Bus Infrastructure - £1.7m, comprising staffing, cleaning, maintenance and security of bus interchanges, stations and shelters.
- Retail, Information and Customer Services - £4.4m, comprising staffing, cleaning, ticketing, publicity, information and customer contact services.
- Shields Ferry - £0.8m, comprising staffing, fuel, maintenance, cleaning and security.
- Discretionary concessions and fares - £11.8m, comprising the Gold Card Scheme, the Child Scheme, Teen Travel and ENCTS payments for the carriage of pass holders on Nexus Secured Bus Services. In addition, the indicative budget proposal for 2016/17 also recommends a freeze in the fares currently levied on both the Gold Card Scheme and the Child Scheme; the Sub-Committee are being provided with further options which will be considered as part of the fares proposal for 2016 on a separate agenda item. In addition, there are discretionary elements of the ENCTS which could be withdrawn or curtailed e.g. the companion pass, post 23:00 hour boardings and boardings pre 09:30 hours for the purposes of attending medical appointments.

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- Capital Financing - £2.3m, comprising unfunded depreciation and pension deficit payments (both of which are included in the cost of services outlined above as well as forming part of Metro's gross expenditure requirement) and revenue contributions to capital which has in recent years been used to fund the delivery of the Bus Strategy as well as providing match funding for investment in smart ticketing and other initiatives e.g. local contributions to LTP and LSTF funded projects.
- Metro Fares – the indicative budget proposal for 2016/17 contains a 0.4% weighted average fares increase against a backdrop of July 2015 RPI of 1.0% (and is being considered on a separate agenda item); however, the NECA has discretion to increase fares at a higher rate if it so desired.
- Support Services – all of Nexus' services (including Metro) are underpinned (and include) nearly £7.0m of expenditure on a range of support services e.g. Corporate Planning, Estates, Marketing, Finance, Internal Audit, Human Resources, ICT, Legal, Health and Safety etc.

Table: Share of Proposed 2016/17 Transport Levy between Districts – Tyne and Wear

District	Population (2014) Mid Year Estimates	2016/17 Levy	Saving compared to 2015/16
	People	£	£
Gateshead	200,505	11,671,345	(397,749)
Newcastle	289,835	16,871,222	(437,299)
North Tyneside	202,744	11,801,677	(397,403)
South Tyneside	148,740	8,658,118	(304,843)
Sunderland	276,889	16,117,638	(542,706)
Total	1,118,713	65,120,000	(2,080,000)

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Extract from Transport North East Committee Report 24 November 2015

Indicative NECA Transport budgets 2016/17 – Durham and Northumberland

Durham County Council

- 1.1. The budget and levy for public passenger transport activity in County Durham is expected to be in the region of £15.342m for 2016/17. This compares with an original budget of £16.076m for 2015/16 and a revised forecast for 2015/16 estimated at £15.131m. The budget and levy for 2016/17 is summarised in the table below.

Durham Transport Budget and Levy 2016/17

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Grant to Durham			
Concessionary Fares	11,728,380	(9,000)	11,719,380
Subsidised Bus Services	4,610,862	(1,788,664)	2,822,198
Bus Stations	453,258	(311,100)	142,158
Bus Shelters	31,040	(44,460)	(13,420)
PT Information	182,614	(94,568)	88,046
Staffing	594,614	(16,368)	578,246
Total Grant	17,600,768	(2,264,160)	15,336,608
Share of NECA Transport Costs	4,939	0	4,939
Transport Levy	17,605,707	(2,264,160)	15,341,547

- 1.2 The overall bus network in County Durham remains fairly stable. There are no significant commercial changes expected in 2016/17 and only a small number of planned contract renewals. However, in contrast to last year's growth we are now seeing a marginal decline in overall patronage figures; we are also anticipating some modest pressure on contract costs due to the introduction of the National Living Wage.
- 1.3 The budget for subsidised bus services has been reduced by £400,000 in line with Durham County Council's Medium Term Financial Plan for 2016/17. The budget saving will be realised through a combination of efficiency savings and a reduction in costs following contract retendering. The focus of spend continues 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.
- 1.4 The budget for concessionary fares continues to be subject to pressure from fares increases. However, a combination of the effects of the rise in entitlement age, a stabilisation of concessionary travel journeys and successful

negotiations with bus operators in relation to reimbursement costs have led to a modest reduction in this area of the budget for 2016/17.

- 1.5 The other main area of work for the transport team in Durham will be to continue to deliver efficiency savings against the home to school transport and adult social care transport budgets. A full review of transport entitlement, commissioning and procurement is ongoing, together with a pilot scheme looking at post 16, health and mainstream transport under the governments Total Transport initiative.

Northumberland County Council

- 2.1 The Budget and Levy for public passenger transport activity in Northumberland is expected to be in the region of £6.159m for 2016/17. This compares with a budget of £5.901m in 2015/16. The budget and levy for 2016/17 is summarised in the table below.

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Concessionary Fares	4,675,450	-12,940	4,662,510
Subsidised Bus Services	1,999,740	-696,340	1,303,400
PT Information	3,400	0	3,400
Staffing	189,680	0	189,680
Total Grant	6,868,270	-709,280	6,158,990
Share of NECA Transport Costs	4,939	0	4,939
Transport Levy	6,873,209	-709,280	6,163,929

- 2.2 The indicative budget for 2016/17 has increased to reflect inflationary pressures in delivering the Concessionary Travel Scheme and the reinstatement of a proposed saving to the Scheme following an audit of the use of disabled passes. The budget for Bus Services will be protected at its current level in cash terms, and no significant investment in the county's bus stations is planned for 2016/17.

North East Combined Authority

Leadership Board

Date: 17 November 2015

Subject: Treasury Management Mid-Year Update

Report Of: Chief Finance Officer

Executive Summary

The purpose of this report is to summarise treasury management activity in the first six months of 2015/16 and to update the prudential indicators agreed by the Leadership Board in January 2015, in the light of the most up to date available information on capital expenditure and financing and actual performance for 2014/15. The investment criteria and limits have also been revised in response to changes within the financial services sector.

Recommendations

It is recommended that the Leadership Board agree to:

1. The revised investment criteria and limits set out in section 2.9; and
2. The updated 2015/16 prudential indicators set out in section 2.10.

North East Combined Authority

Leadership Board

1 Background Information

- 1.1 In line with the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice, the Authority is required to approve a treasury management strategy (including a range of prudential indicators) before the start of each financial year and to monitor / report performance against these prudential indicators during the year, (with a mid year review) and following the year end.

2 Proposals

Borrowings

- 2.1 External interest rates payable in the first six months of the 2015/16 financial year were at the level assumed in the treasury management strategy. The early repayment of £25.6m of external debt in April 2015 has enabled the Authority to reduce its financing charges. All borrowing currently relates to Tyne and Wear, and the costs of this borrowing are charged to the Tyne and Wear transport levy; the Tyne Tunnels budget and the Nexus budget as appropriate.
- 2.2 No new loans have been taken out during the year to date. The following table shows the movement between opening and closing level of external loans during the first six months of the year and known repayments to the year end.

Table 1: External Loans

Figures in £m	Actual	Authorised
Level of external loans as at 1 April 2015	196.967	240.000
New loans taken out in first six months of year	-	-
Loans repaid in first six months of year	(25.634)	-
Level of external loans as at 30 September 2015	171.333	240.000
Estimated further net decrease in external loans	(1.333)	-
Estimated level of external loans as at 31 March 2016	170.000	240.000

- 2.3 As can be seen from the above table, the overall level of borrowing has decreased to just over £171m in the first six months of the year. This is due to some loans coming to maturity and being repaid without being replaced, and other borrowings being repaid early where appropriate. This level of borrowing is well under the authorised limit for the year, as the Authority has used internal funds in place of external borrowing to part fund its capital financing requirement. The authorised limit has been retained at a consistent level despite repayment of external borrowing, to allow the flexibility to undertake external borrowing if required later in the year.
- 2.4 The Authority strives to minimise the interest rate risk it faces and maintain stability by seeking to maintain an appropriate debt maturity profile (i.e. the profile of when external loans need to be repaid), which is shown in Table 2 below.

North East Combined Authority

Leadership Board

Table 2: External Debt Maturity Profile

Loans repayable:	01/04/2015 (actual) £m	30/09/2015 (actual) £m	31/03/2016 (estimate) £m
In less than one year	26.967	1.667	1.667
Between one and two years	2.667	2.667	2.667
Between two and five years	3.667	3.667	3.667
Between five and ten years	3.333	3.000	2.000
In more than ten years	160.333	160.333	160.000
Total	196.967	171.333	170.000

- 2.5 As can be seen from the above table, the profile is weighted heavily towards long-term borrowing. This is because most of the borrowing relates to the New Tyne Crossing Project, where long-term borrowing was preferable to provide certainty of payments to enable accurate financial modelling over the period of the operating concession. As short-term loans have matured, they have not been replaced.
- 2.6 The current average rate of external interest payable (i.e. 4.28%) is in line with the assumptions made when the 2015/16 budget was set and total external interest charges to the year-end will be within budget.

Investments

- 2.7 At 1st April the Authority had £28m invested in short term deposits and held short term cash or cash equivalent investments of £68m.
- 2.8 Due to the receipt of £53.910m Local Growth Deal funding in April 2015, the Authority has had a higher level of cash during 2015/16 than in previous years and the level of external investments has therefore increased. This requires additional flexibility and options to manage investments. Based on the current level of planned capital expenditure and use of revenue balances in 2015/16 and the expected profile of payments which is expected to be weighted towards the year end, the level of external investments is expected to be around £20m by the end of the financial year.
- 2.9 The current weighted average rate of external interest receivable is 0.56%. Investments of cash balances will be extended to periods of up to 12 months in order to secure an increased average rate of return, with increased interest income used to help fund the costs of the Authority.
- 2.10 The primary objective of the Authority's investment strategy is to ensure the security of the funds invested, and to achieve a reasonable rate of return commensurate with the level of security required. The Authority's investment criteria have been revised in response to changes within the financial services sectors and to give increased flexibility to place investments adopted by its constituent councils. The changes and are shown in bold in the following revised table.

North East Combined Authority

Leadership Board

Table3 : Investment Limits

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

2.10 The changes are highlighted in bold and explained below: -

- UK Banks with an 'A' rating have been included with the group of banks with a £15m, rather than a £10m limit.
- Explicit reference is made to Money Market Funds, which are a secure form of investments with high credit ratings, which gives increased flexibility and are used by other local authorities in the NECA area.
- Local authority controlled companies have been included to give increased flexibility to invest in/provide loans to local authority controlled companies in the NECA area.

Note 1 – NECA's (formerly TWITA's) bank account was with the Co-operative Bank, which has a current rating of B. We are currently transferring our account to Lloyds Bank Ltd, which has a Fitch rating of A+. To reduce risk we have been minimising cash holdings with the Co-operative bank on a daily basis.

Prudential indicators

2.11 The treasury management strategy agreed by the Leadership Board in January 2015 included a range of indicators to ensure the prudent use of the Authority's borrowing powers set out in the Local Government Act 2003. The Authority's borrowing powers extend to Transport related activity and, as a result, the prudential indicators are currently focused on that area of NECA activity. These prudential indicators have been revised based on the most up to date capital expenditure / financing position and are set out in the following table.

North East Combined Authority

Leadership Board

Table 4 : Prudential Indicators

	2014/15 actual	2015/16 estimate	2016/17 estimate	2017/18 estimate
Capital expenditure (Transport capital programme)	58.830	88.194	90.000	90.000
Financing costs to Net Revenue Stream				
Tyne & Wear Transport levy	68.207	67.200	66.120	66.120
Tyne & Wear Transport financing costs	2.270	2.169	2.099	2.033
%	3.3%	3.2%	3.2%	3.1%
Nexus levy plus direct grants	93.224	92.931	92.500	92.500
Nexus financing costs	3.868	3.717	3.572	3.432
%	4.1%	4.0%	3.9%	3.7%
Tunnels tolls income	26.116	27.457	29.527	30.245
Tunnels financing costs	6.447	6.419	6.486	6.565
%	24.7%	23.3%	22.0%	21.7%
CFR at end of year				
Tyne Tunnels and Tyne & Wear Transport	161.117	158.978	156.854	154.744
Nexus	45.236	43.403	41.637	39.938
Total	206.353	202.380	198.492	194.682
Incremental impact of CF decisions (impact on Transport levy)	(0.070)	(0.101)	(0.070)	(0.066)
Operational Boundary for External Debt	235	235	235	235
Authorised Limit for External Debt	240	240	240	240
Actual External Borrowing	197	170	168	168

North East Combined Authority

Leadership Board

Treasury Management Activity in 2016/17

- 2.12 Proposals are currently being discussed by the Directors of Resources Group around the potential for pooled Treasury Management arrangements which could drive potential savings for local authorities on their Enterprise Zones infrastructure funding requirements and increase the opportunity to early higher rates of interest on investments. Consideration is also being given to potential for taking out longer-term investments (beyond 1 year) where resources are not required to be drawn down in the short term to maximise interest returns.
- 2.13 Maintaining the authorised limit at the current level of £240m, which is above the level of the Capital Financing Requirement and level of actual external debt will allow the Authority the flexibility to explore opportunities for pooled treasury management arrangements, and to carry out any additional borrowing or debt restructuring which could achieve savings for NECA and authorities across the NECA area. The level of the Authorised Limit for future years will need to reflect the outcome of bids for further Enterprise Zones and the Devolution agreement, which involve infrastructure funding which could be funded by additional borrowing. This will be reflected in an updated report as part of the 2016/17 budget.

3 Next Steps

- 3.1 Proposals for the 2016/17 strategy will be developed further by officers and discussed with Governance Committee during December, and presented for approval by the Leadership Board with the budget report in January.

4 Potential Impact on Objectives

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

5 Finance and Other Resources

- 5.1 There are no additional direct financial implications arising from this report, other than the potential for reduction in net interest costs.

6 Legal

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

North East Combined Authority

Leadership Board

7 Other Considerations

7.1 Consultation/Community Engagement

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

7.2 Human Rights

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

7.3 Equalities and Diversity

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

7.4 Risk Management

The main risk consideration relates to external interest rates. This is being mitigated by maintaining a balance of predominantly longer-term borrowing, while seeking to minimise interest charges through reducing the total level of external borrowing as opportunities are presented. The risk of investments being lost due to the financial difficulties of a third party is being mitigated by revising the Authority's investment criteria to reflect the most up to date information on credit worthiness from external treasury management advisers.

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

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

8 Background Documents

8.1 CIPFA Treasury Management in the Public Services: Code of Practice

9 Links to the Local Transport Plans

9.1 There is no direct link to the Local Transport Plans.

10 Appendices

10.1 None.

North East Combined Authority

Leadership Board

11 Contact Officers

11.1 Eleanor Goodman, Principal Accountant – North East Combined Authority, eleanor.goodman@northeastca.gov.uk, 0191 277 7518

12 Sign off

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

13 Glossary

CIPFA – Chartered Institute of Public Finance and Accountancy
PWLB – Public Works Loans Board

North East Combined Authority

Governance Committee

Date: 11 December 2015

Subject: Tyne and Wear Quality Contracts Scheme

Report of: Managing Director (Transport Operations), Nexus

Executive Summary

At the request of the Chair, in consultation with the Monitoring Officer, this report provides the Governance Committee with documentation related to the proposed Quality Contracts Scheme (QCS) for Tyne and Wear that has previously been presented to the North East Leadership Board.

Recommendations

The Governance Committee is invited to review the documentation considered by the North East Leadership Board (NELB) during development of the QCS.

1 Background Information

- 1.1 On 21 October 2014 the North East Leadership Board received a report from the Lead Chief Executive for Transport and the Director General of Nexus that examined options to deliver the Bus Strategy for Tyne and Wear and sought approval to refer the proposed Quality Contracts Scheme (QCS) to the QCS Board, the next stage in the legislative process to make the QCS. The minutes of this meeting can be found at
http://www.northeastca.gov.uk/sites/default/files/minutes_document/Draft%20Minutes%20-%2021%20October%202014%20-%20North%20East%20Leadership%20Board.pdf
- 1.2 The report of the Lead Chief Executive for Transport presented to the NELB on 21st October 2014
http://www.northeastca.gov.uk/sites/default/files/minutes_document/North%20East%20Leadership%20Board%2021%20October%202014%20-%20Agenda.pdf

North East Combined Authority

Governance Committee

- 1.3 The Lead Chief Executive for Transport's report on 21st October 2014 was accompanied by a further report from the Director General of Nexus, http://www.northeastca.gov.uk/sites/default/files/minutes_document/North%20East%20Leadership%20Board%2021%20October%202014%20-%20Agenda.pdf
- 1.4 On 17th November 2015 the NELB received a further report from the Lead Chief Executive for Transport and Managing Director for Transport Operations that set out the QCS Board's opinion regarding the QCS for Tyne and Wear. This report is reproduced in Appendix 4. The full text of the QCS Board's opinion can be found at http://www.northeastca.gov.uk/sites/default/files/minutes_document/Leadership%20Board%2017%20November%202015%2C%20Supplemental%20Agenda%20Pack%20No.1.pdf

2 Next Steps

- 2.1 On 17 November 2015 the NECA Leadership Board instructed Nexus to review the options for delivering the objectives of the Bus Strategy.

3 Potential Impact on Objectives

- 3.1 None arising directly as a consequence of this report.

4 Finance and Other Resources

- 4.1 None arising directly as a consequence of this report.

5 Legal

- 5.1 None arising directly as a consequence of this report.

6 Other Considerations

6.1 Consultation/Community Engagement

None arising directly as a consequence of this report.

6.2 Human Rights

None arising directly as a consequence of this report.

North East Combined Authority

Governance Committee

6.3 Equalities and Diversity

None arising directly as a consequence of this report.

6.4 Risk Management

None arising directly as a consequence of this report.

6.5 Crime and Disorder

None arising directly as a consequence of this report.

6.6 Environment and Sustainability

None arising directly as a consequence of this report.

7 Background Documents

7.1 The report of the Lead Chief Executive for Transport dated 21st October 2014 had two annexes, which can be accessed using the web links below:

- Annex 2 Part 1 relates to legal advice on consultation and process - <http://www.nexus.org.uk/sites/default/files/Final%20Nexus%20Procedure%20and%20Consultation%20Advice%20141003.pdf>
- Annex 2 Part 2 relates to legal advice on the public interest test and proportionality - <http://www.nexus.org.uk/sites/default/files/Final%20Nexus%20Proportionality%20Advice%20141003.pdf>

7.2 The report of the Director General of Nexus dated 21st October 2014 had six appendices, which can be accessed using the web links below:

- Appendix A: Voluntary Partnership Agreement - http://www.nexus.org.uk/sites/default/files/Appendix%20A%20-%20Voluntary%20Partnership%20Agreement_1.pdf
- Appendix B: Quality Contracts Scheme - http://www.nexus.org.uk/sites/default/files/Appendix%20B%20-%20Quality%20Contracts%20Scheme_1.pdf
- Appendix C: QCS Public Interest Test Report - <http://www.nexus.org.uk/sites/default/files/Appendix%20C%20-%20QCS%20Public%20Interest%20Test%20Report%20PUBLIC.pdf>
- Appendix D: Cross Boundary Bus Collaboration Protocol - http://www.nexus.org.uk/sites/default/files/Appendix%20D%20-%20Cross%20Boundary%20Bus%20Collaboration%20Protocol_1.pdf

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- Appendix E: QCS Affordability Analysis - <http://www.nexus.org.uk/sites/default/files/Appendix%20E%20-%20QCS%20Affordability%20Analysis.pdf>
- Appendix F: BSDP Consultation Report - <http://www.nexus.org.uk/sites/default/files/Appendix%20F%20-%20BSDP%20Consultation%20Report.pdf>

8 Links to the Local Transport Plans

- 8.1 The Bus Strategy for Tyne and Wear is a daughter document to the Local Transport Plan for Tyne and Wear.

9 Appendices

- 9.1 Appendix 1: NELB minutes, 21st October 2014
- 9.2 Appendix 2: Report from Lead Chief Executive for Transport to NELB, 21st October 2014
- 9.3 Appendix 3: Report from Director General of Nexus to NELB, 21st October 2014.
- 9.4 Appendix 4: Report from Lead Chief Executive for Transport and Managing Director for Transport Operations to NELB, 17th November 2015, with QCS Board Opinion appended.

10 Contact Officers

- 10.1 Tobyn Hughes, Managing Director for Transport Operations, NECA/Nexus
E-mail tobyn.hughes@nexus.org.uk Tel: 0191 203 3246

11 Sign off

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

Please use ✓

North East Combined Authority

Governance Committee

12 Glossary

QCS – Quality Contracts Scheme

VPA – Voluntary Partnership Agreement

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Appendix 1

NELB minutes, 21st October 2014

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Appendix 2

Report from Lead Chief Executive for Transport to NELB, 21st October 2014

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Appendix 3

Report of Director General of Nexus to NELB, 21st October 2014

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Appendix 4

Report from Lead Chief Executive for Transport and Managing Director for Transport Operations to NELB, 17th November 2015, with QCS Board Opinion appended

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North East Combined Authority

Governance Committee

DATE: 11 December 2015

SUBJECT: Strategic Risks and Opportunities Register

REPORT OF: Audit, Risk and Insurance Service Manager

EXECUTIVE SUMMARY

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

RECOMMENDATIONS

Governance Committee are asked to:

- Review 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.
- Agree to a summary of the Combined Authority risks and opportunities being circulated to Chief Executives and Leadership Board.

North East Combined Authority

Governance Committee

1 Background Information

1.1 In response to the risk management audit the risk management policy, strategy and supporting scoring criteria have been circulated to all theme leads and nominated officers within each Local Authority. This will ensure the agreed risk management process is applied to all NECA risk management activities. Additional risk guidance was also provided to report authors to strengthen the risk management section of committee reports to ensure members have an understanding of the potential risks before reaching their decision.

1.2 Since the last report to Governance Committee, movement has taken place in the following risk and opportunity areas:

The Opportunity to secure devolved funding and responsibilities is moving in a positive direction of travel reflecting the devolution agreement between Government and Leadership Board. The Deal will be reviewed alongside the overall context of Local Government Funding, following the Autumn Statement and Spending Review.

The risk which monitors the resources available to support the Leadership Board is also moving in a positive direction of travel. A resource mapping exercise has been undertaken and the resource plans have been shared with Chief Executives who are considering the options within their own organisations to inform discussions about future structures and resources across the Authority.

1.3 Appendices A and B provide the Committee with details of each risk and opportunity, including direction of travel. The Toolkit at Appendix C is used to determine the risk priority.

1.4 The strategic risk register only contains high level risks and opportunities covering the overall Authority. Specific risks relating to themes within the Strategic Economic Plan, for example, risks identified around the Quality Contracts Scheme, continue to be monitored within the themes, in this example by Nexus and reported to the Transport North East (Tyne and Wear) Sub Committee.

2 Proposals

2.1 NECA will continue to develop the strategic risk register to record, monitor and report the strategic risks and opportunities to the Governance Committee at 6 monthly intervals, utilising support from officers. This work continues to be co-ordinated by the Audit, Risk and Insurance Service Manager from Newcastle City Council, who provides the internal audit function for NECA.

North East Combined Authority

Governance Committee

3 Next Steps

- 3.1 Nominated lead officers will further develop the strategic risk register and ensure mitigation activity continues to be 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

- 6.1 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 6 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.

North East Combined Authority

Governance Committee

8 Background Documents

8.1 There are no background documents

9 Links to Plans in the Policy Framework

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

10 Appendices

- Appendix A – ‘Risk at a glance’ assigns each strategic risk or opportunity to a Strategic Economic Plan theme, shows the risk priority and direction of travel
- Appendix B – Provides a detailed assessment of the strategic risks and opportunities 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

North East Combined Authority

Governance Committee

Risk at a glance

Appendix A

Strategic Risks and Opportunities		
Strategic Economic Plan Theme and Risk/Opportunity Description	Risk Priority	Direction of Travel
Business Support and Access to Finance Theme – Providing the framework for business to access the information, advice and finance they need to thrive and grow		
Operational – Risk to support structures	Amber 9	Improving
There is a lack of clarity and cohesiveness around the resources available and being utilised to effectively support the Combined Authority/Leadership Board		
Economic Assets and Infrastructure Theme– Developing the areas in which businesses can invest and grow, and people can train and excel		
Resources – Risk to the delivery of proposed projects and schemes	Amber 9	Static
Following receipt of the North East Growth Deal funding, the Combined Authority are unable to demonstrate to government and partners their ability to successfully deliver the agreed projects and schemes within funding allocation, timeframes and satisfy key criteria		
Partnerships – Opportunity to strengthen partnerships	Amber 9	Improving
The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region and across the public and private sector to drive forward change and successfully deliver the Strategic Economic Plan (SEP)		
Innovation Theme – Creating competitive advantage through innovation – building a platform for local businesses to contribute to their own future with the support to excel in whatever area they choose		
Devolution - Risk to the devolution of funding and responsibilities	Amber 8	Improving
If the Combined Authority does not continue to successfully engage with National Government for the devolution of powers and resources in support of the Authority’s economic growth objectives, this may diminish the Authority’s role and profile and reduce its capacity for delivery of the Strategic Economic Plan.		

North East Combined Authority

Governance Committee

Appendix B

<p><u>Devolution</u> – Risk to the devolution of funding and responsibilities</p> <p>If the Combined Authority does not continue to successfully engage with National Government for the devolution of powers and resources in support of the Authority’s economic growth objectives, this may diminish the Authority’s role and profile and reduce its capacity for delivery of the Strategic Economic Plan.</p>	<p><u>Risk Owner</u> North East Leadership Board</p> <p><u>Risk Score</u> Mitigating the risk will secure future funding opportunities and strengthen autonomy</p> <p>Amber 8 Likelihood – Low (Risk may occur) Impact – Critical (inability to secure or loss of significant funding opportunity/national media attention)</p>
<p><u>Cause(s):</u></p> <ul style="list-style-type: none"> • Governance arrangements within the Authority do not meet the expectations of National Government • Delivery and Operational levels of the Combined Authority continue to be developed. We will need to ensure delivery arrangements are adequately resourced to prove our ability to successfully deliver all priorities, avoiding reputational risk • Success of the Combined Authority will rely on the on-going commitment and buy in of all member authorities and the working of the Authority with other partners in the region, including the North East Local Enterprise Partnership (NELEP) 	
<p><u>Impact/Consequence(s):</u></p> <ul style="list-style-type: none"> • Government could restrict the level of powers and autonomy if our Governance arrangements are not in line with their expectations • The Authority could lose the confidence of local Business Leaders and Partners if there is a major delay to devolution as a result of challenging National Government governance expectations/arrangements • Any divergence between the Authority’s aims and priorities and those of the NELEP may impact adversely on continued government support and funding and send a contradictory or inconsistent message to our partners 	
<p><u>Controls:</u></p> <ul style="list-style-type: none"> • North East Devolution Prospectus – The North East Combined Authority submitted a Statement of Devolution Intent to Government, which was agreed on 23 October 2015 to begin negotiations with Government ministers to secure substantial devolution of power, funding streams and responsibilities to the North East. • One North – a strategic proposition for an interconnected transport system (Northern cities working together to shape transport plans which would transform economic competitiveness of the north • Northern Futures – University Technology College (UTC) will offer the North East’s young people aged between 14-18 the technical skills in Information Technology (IT) and Healthcare Sciences, providing employers with advanced technical skills. The UTC will open in Newcastle 2017 • Employability, Inclusion and Skills Steering Group – Operational plan to support delivery of the SEP: <ul style="list-style-type: none"> ▪ Worklessness and low skills ▪ Youth employment strategy • Collaboration with NELEP to provide demand led education & skills to reflect needs of employers 	
<p><u>Next Steps:</u></p> <ul style="list-style-type: none"> • Devolution Deal for the North East – The Deal will be reviewed alongside overall context of Local Government Funding, following the Autumn Statement and Spending Review. Consultation about the deal is underway and due to be completed in February, with the Deal potentially signed in March 2016. • Mayoral Combined Authority – Agreement to establish an elected Mayor for the region from 2017 meeting National Government expectations. • North East Investment Fund - £30m a year for 30 years to deliver a long term programme of investment bringing together resources for economic growth, skills and employability, regeneration, transport and housing 	

North East Combined Authority

Governance Committee

<p><u>Operational</u> – <i>Risk to support structures</i></p> <p>There is a lack of clarity and cohesiveness around the resources available and being utilised to effectively support the Combined Authority/Leadership Board</p>	<p style="text-align: center;"><u>Risk Owner</u> North East Leadership Board</p> <p style="text-align: center;"><u>Risk Score</u> Mitigating the risk will secure future funding opportunities and strengthen autonomy</p> <p style="text-align: center;">Amber 9 Likelihood – Medium (risk is likely to occur in most circumstances) Impact – Significant (partner unable to commit to joint arrangements)</p>
<p>Cause(s):</p> <ul style="list-style-type: none">• For staff responsible for Combined Authority functions agreed staffing structures have not been formalised and/or communicated, therefore resource plans have not been developed which recognise individual officer disciplines, main responsibilities and resource requirements e.g. budgets• Lack of understanding of roles and interdependencies between officers supporting the Combined Authority	
<p>Impact/Consequence(s):</p> <ul style="list-style-type: none">• The lack of clarity or shared understanding of key support functions may impair the Authority's ability to operate effectively and efficiently• The lack of effective resource plans may result in reduced capacity to effectively support Statutory Officers discharge their duties confidently• Duplication of effort between officers within individual Local Authorities	
<p><u>Controls:</u></p> <ul style="list-style-type: none">• Service Level Agreements (SLAs) are in place to satisfy some human resources requirements• To support the Leadership Board a Resource Plan has been developed which identifies officer support across each Local Authority	
<p><u>Next Steps:</u></p> <ul style="list-style-type: none">• The outcome of the Resource Mapping exercise is being considered by each Local Authority to consider the options within their own organisations to inform future structures and resources across the Authority. This will be reported in stages as part of the budget proposals in January and March 2016 once the Devolution Deal is agreed• Develop and communicate organisation chart for NECA support officers	

North East Combined Authority

Governance Committee

<p>Resources – Risk to the delivery of proposed projects and schemes</p> <p>Following receipt of the North East Growth Deal funding, the Combined Authority are unable to demonstrate to government and partners their ability to successfully deliver the agreed projects and schemes within funding allocation, timeframes and satisfy key criteria</p>	<p>Risk Owner North East Leadership Board</p> <p>Risk Score Mitigating the risk will secure future funding opportunities and strengthen autonomy</p> <p>Amber 9 Likelihood – Medium (risk is likely to occur in most circumstances) Impact – Significant (one or more programmes affected/recoverable impact on delivery of the SEP)</p>
<p>Cause(s):</p> <ul style="list-style-type: none"> • Delays in receipt of formal Growth Deal grant funding notification from Central Government • Availability of 2014-2020 European funding leading to potential delays in project delivery • Local Authorities inability to secure match funding • Unanimous agreement of the Combined Authority’s budget is not achieved • Projects/Schemes do not spend in line with Local Growth Fund criteria • Projects/Schemes are not in a position to progress to meet timeline • Insufficient HR to support project delivery 	
<p>Impact/Consequence(s):</p> <ul style="list-style-type: none"> • If the Combined Authority/NELEP are unable to demonstrate their ability to deliver agreed projects and schemes which fully satisfy the Governments funding criteria, it may result in difficulty securing future funding opportunities and our ability to strengthen further autonomy/devolution going forward • Possible delays in major projects • Possibility of projects across all themes competing against each other for funding • Reputational impact as the Combined Authority is the accountable body (along with the NELEP) 	
<p>Controls:</p> <ul style="list-style-type: none"> • The North East Combined Authority Constitution (Budget and Policy Framework Rules of Procedure) sets out how the Combined Authority operates, how decisions are made, and the procedures that are followed to ensure that the Combined Authority operates efficiently, effectively and is both transparent and accountable (reviewed annually) • Nexus Executive Transport Operator – Developing and delivering passenger transport services in line with NECA policies • Additional £40.6m Growth Deal Funding invested between 2016-2021 (originally £289.3m) • Partners continued engagement through the formal meetings of the Combined Authority, including Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels • Prioritisation model is applied to the Strategic Economic Plan (SEP) to identify key projects across each SEP theme • NELEP Board have agreed a protocol to support reallocation of funding to allow flexibility around projects which may incur slippage or delay • Service Level Agreements (SLAs) are in place to satisfy current HR requirements. There is a regional pool of officers with the required knowledge and skills set to support to NELEP and Leadership Board • Committees/Sub Committees (Transport, Governance, Overview & Scrutiny) 	

North East Combined Authority

Governance Committee

<p><u>Partnerships</u> – <i>Opportunity to strengthen partnerships</i></p> <p>The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region and across the public and private sector to drive forward change and successfully deliver the Strategic Economic Plan</p>	<p style="text-align: center;"><u>Opportunity Owner</u> North East Leadership Board</p> <hr/> <p style="text-align: center;"><u>Opportunity Score</u> The opportunity will bring significant benefits if we increase the likelihood of a successful partnership</p> <p style="text-align: center;">Amber 9 Likelihood – Medium (risk is likely to occur in most circumstances) Impact – Significant (partner unable to commit to joint arrangements/recoverable impact on delivery of the SEP)</p>
<p><u>Benefits</u></p> <ul style="list-style-type: none"> • Strengthening the synergy between the Leadership Board, North East Local Enterprise Partnership (NELEP) and Local Authorities • Influencing regional approaches to growth • Providing the legal platform and governance framework to access more devolved powers • Enabling local leaders to speak with one voice about the future of our functional economic areas • Improving how we work with Government, business, investors and partners • Providing a legally constituted and democratically accountable body to channel the delivery of priority programmes and infrastructure projects for the region 	
<p><u>Barriers</u></p> <ul style="list-style-type: none"> • The success of the Combined Authority will rely on the on-going commitment and buy in of all member authorities and how NECA works with other partners in the region, including the private sector • It is important that the Leadership Board share the same vision and commitment to the Combined Authority, ensuring individual plans are aligned • It is recognised that there are a number of partners, therefore effective and timely communications and consultation is vitally important to reduce reputational impact • The Leadership Board have the delegated powers to make strategic decisions, however they need to ensure support services are adequately resourced to inform and assist decision making 	
<p><u>Next Steps</u></p> <ul style="list-style-type: none"> • Partners continue to engage through the formal meetings of the Combined Authority, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels • Ensure the Combined Authority develops a clear communication strategy between all members and the NELEP to explain precisely what the Combined Authority is responsible for and what is not within its remit • Develop communication strategy for private and public sector to help them understand the role of the Combined Authority and the areas of work it is involved with • Establishment of the NECA/NELEP Integrated Team will ensure the creation of a streamlined/cost effective team, who will have the necessary skill set to support the NELEP and Combined Authority (Financial, Legal, HR, Project Management) • Establishment of the Economic Development and Regeneration Advisory Board – to advise Leadership Board on economic strategy, project pipelines and funding future projects. The Board will oversee collaborative initiatives to promote inward investment 	

NECA Strategic Risk Analysis Toolkit

Appendix C

Action plans must be developed for Red and Amber risks

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

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

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopp Page 138 08.1.2022	<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
Insignifi	<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 	

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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