



## North East Combined Authority, Governance Committee

Tuesday 9th December, 2014 at 12.00 pm

Meeting to be held: Committee Room, Civic Centre, Barras Bridge, Newcastle upon Tyne  
NE1 8QH

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# AGENDA

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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 12 September 2014** 1 - 6
4. **Request for Dispensations** 7 - 16
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6. **North East Combined Authority Budget 2015/16** 23 - 74
7. **Annual Audit Letter 2013/14** 75 - 90
8. **Annual Governance Statement** 91 - 96

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| 9.  | <b>Strategic Risk Approach and Next Steps</b> | <b>97 - 108</b>  |
| 10. | <b>Internal Audit Progress Report</b>         | <b>109 - 122</b> |
| 11. | <b>Date and Time of Next Meeting</b>          |                  |

Friday 27 February 2015 at 2.00pm at South Tyneside Council

Contact Officer: Christine Patterson Tel: 0191 211 6156  
E-mail: [christine.patterson@newcastle.gov.uk](mailto:christine.patterson@newcastle.gov.uk)

**To: All Members**

## North East Combined Authority, Governance Committee

12 September 2014

(2.00 pm - 2.50 pm)

Meeting held Committee Room 1 - Northumberland County Council, County Hall, Morpeth NE61 2EF

### Present:

Independent Chair: M Scrimshaw

Councillors: E Bell, B Coates, A Dale, H Franks, J O'Shea and H Trueman

Independent Member: G Clark

### 10 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor A McMillan and Ms S Gardner, the Independent Person.

### 11 DECLARATIONS OF INTEREST

The declaration of interest procedure was noted.

### 12 MINUTES OF PREVIOUS MEETING HELD ON 27 JUNE 2014

**RESOLVED** – That the Minutes of the previous meeting held on 27 June 2014 were agreed as a correct record and signed by the Chair.

### Matters Arising:

**Minute 5 – Annual Governance Statement 2013/14:** Reference was made to the request for the framework for seeking internal/external assurance and a timetable and arrangements. The Committee was informed that a draft would be presented to the proposed additional Committee meeting to be scheduled to take place in December 2014.

### 13 THE ESTABLISHMENT OF A SUB-COMMITTEE OF THE GOVERNANCE COMMITTEE

Submitted: A report by the Monitoring Officer (previously circulated and a copy attached to official minutes), which provided information on the terms of reference for a Sub-Committee and process for determining complaints of breaches of the Code of Conduct for Members, the grant of dispensations from non-participation in a meeting or voting at the meeting because of a dis-closable pecuniary interest held by a Member.

Reference was made to the assessment of complaints with comments being raised about whether a Member could potentially be investigated by both the Combined

Authority as well as the Authority they were elected to. It was explained that although no guarantee could be given that this would not happen, the Assessment Criteria had been established so that the Monitoring Officer had a degree of flexibility to determine the best route for the complaint to be investigated. The Assessment Criteria would be checked to ensure it was robust enough so that it provided for the rejection of a complaint, which was more appropriately addressed by another body or more particularly the Authority from which the subject member of the complaint was nominated.

A short discussion was held around the size and composition of the Sub Committee to be recommended to the Leadership Board. A comment was expressed about ensuring the Sub Committee did not comprise of a Member from the same Authority as the subject member complaint.

**RESOLVED** – That the Committee:

- (i) Noted the report.
- (ii) Agreed the Membership of the Sub Committee as 3 Members with a Quorum of 2, in addition to each meeting being Chaired by one of the non-voting Co-opted Independent Members.
- (ii) Invited the Leadership Board to amend the Constitution to create a Sub-Committee for the purposes of determining complaints of breaches of the Code of Conduct for Members and for granting dispensations for Members with registerable and non-registerable personal interests to enable Members to participate and vote at Committees where otherwise this would be prohibited, as detailed in the report.

#### 14 **REQUEST FOR DISPENSATIONS**

Submitted: A report by the Monitoring Officer (previously circulated and a copy attached to official minutes), which provided information for determining requests for dispensations from Members and substitute Members of the Leadership Board in relation to their registerable and non-registerable personal interests.

The Committee was advised that a further five requests had been received since the report was circulated; details of which were reported.

In response to clarification on the recommended period of time that the dispensations were to be granted, it was explained that this would be for an initial two years but could be extended, if considered appropriate on expiry of the two year period.

The Chair suggested that if further dispensations were received, that he along with the Monitoring Officer be given authority to grant the dispensation on the grounds identified, inviting the Committee to consider his suggestion.

**RESOLVED** – That:

- (i) The requests for dispensation circulated with the agenda and the additional requests received and reported at the meeting be granted to enable the Members and Substitute Members to remain in relevant Leadership Board meetings when considering matters relating to funding agreements between the NECA and the Member's Authority but not to vote on the matter.
- (ii) The Monitoring Officer in conjunction with the Chair of the Governance Committee be authorised to grant dispensations for further requests received from the Members and substitute Members of the Leadership Board.
- (iii) Where dispensations were granted that the Monitoring Officer be authorised to issue a certificate of dispensation to Members concerned.

## 15 **ANNUAL REPORT AND ACCOUNTS 2013/14**

Submitted: A report by the Chief Finance Officer (previously circulated and a copy attached to official minutes), which summarised the findings of the audit and presented details of the final accounts for consideration.

During the presentation of the main highlights, appreciation was extended to the Senior Accountant, Newcastle City Council and her team for all the hard work in preparing and auditing the accounts and the Governance Statement.

The Committee was informed about a potential contingency liability relating to the Tyne Tunnel toll exemptions, which arose during July/August and which had been reported to the Auditors. Further information about this would be provided to Members in due course.

The Chair asked for a letter of thanks on behalf of the Committee to be sent to Councillor David Wood, Chairman of the Former Tyne and Wear Integrated Transport Authority, expressing the Committee's appreciation for his efforts. He also requested that thanks be recorded in the Minutes for the support of from Mr Anthony Atkinson and Ms Elizabeth Green during their term of office as Independent Members.

### **RESOLVED – That**

- (i) The Annual Report and Accounts for 2013/14 be recommended to the Leadership Board for sign-off.
- (ii) The Annual Governance Statement 2013/14 be recommended to the Leadership Board for sign-off.
- (iii) A letter of thanks and appreciation be sent to the Chair of the Former Tyne and Wear Integrated Transport Authority on behalf of the Committee.

## 16 **EXTERNAL AUDITOR'S REPORT TO THE GOVERNANCE COMMITTEE OF THE NORTH EAST COMBINED AUTHORITY**

Submitted: A report by the External Audit (previously circulated and a copy attached to official minutes), which provided details of the audit of the Tyne and Wear

Integrated Transport Authority 2013/14, by the Authority's independent external auditors, Deloitte.

The principal matters arisen from the Audit for the year ending 31 March 2014, and the judgemental areas were highlighted. Appreciation was extended to the management team for their assistance and cooperation during the course of their audit work.

Members welcomed the report.

On points of clarification, it was explained that in future there would be one set of accounts for the Combined Authority, which would include information on the Tyne and Wear transport. Deloitte would continue as the External Auditors for the Combined Authority for the transition period 2014/15 with Mazars taking over the role from 2015.

**RESOLVED** – That the External Auditor's report be received and noted.

At this point in the proceedings, the Chair announced that an additional short verbal update was to be provided, seeking Committee's agreement.

#### 17 **BUDGET 2014/15 - ADDITIONAL ITEM**

The Committee was informed that NECA Leadership Board would be considering the 2015/16 Budget in January 2015; however, a report on the process and timetable for the preparation, consultation of the 2015/16 Budget and the Medium Term Financial Strategy was being for consideration the NECA Leadership Board on Tuesday 16 September and a copy of this report, for information purposes, would be circulated to Governance Committee.

**RESOLVED** – That the Budget 2014/15 Process and Timetable report being considered by the NECA Leadership Board on Tuesday 16 September 2014 be circulated for information to Governance Committee members.

Councillor Dale left the meeting at 2.45pm

#### 18 **INTERNAL AUDIT PROGRESS REPORT**

Submitted: A report by Audit, Risk and Insurance Service Manager (Newcastle City Council) (previously circulated and a copy attached to official minutes), which provided members with an updated Internal Audit Plan for the Combined Authority for 2014/15 and detailed progress against the delivery of the plan and implementation of audit recommendations.

In response to questions asked, the Committee was appraised in detail about the processes and risk management strategy relating to the Tyne Tunnel Toll Income.

A discussion took place on the level of detail and information to be provided in the Audit Activity schedule.

The Committee was reminded that there was some capacity set within the Plan to undertake additional activity should it arise throughout the year.

**RESOLVED** – That the Committee:

- (i) Noted the revised Internal Audit Plan for 2014/15 and internal audit activity to date.
- (ii) Agreed the level of detail and information to be provided in the report, as that presented, in addition to the following points being highlighted in the schedule:
  - Aggregate number of days expected for each audit activity
  - Date the audit activity was due to Governance Committee for consideration

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

The Committee was invited to consider the following in terms of future meetings:

- Holding an additional meeting on 9 December, 2014 to coincide with the meeting of the NECA Overview and Scrutiny Committee to enable members to attend part of this meeting to hear the briefing on transport.
- To find an alternative date to that scheduled in February 2015.

**RESOLVED** – That:

- (i) Members to be invited to attend the Transport briefing session scheduled to take place at the NECA Overview and Scrutiny Committee meeting on 9 December 2014.
- (ii) An additional meeting of the Committee to be scheduled on 9 December 2014, possibly following the close of business of the NECA Overview and Scrutiny Committee.
- (iii) The meeting scheduled to take place on 13 February 2015 be cancelled and an alternative date be found and notified to all concerned.

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## North East Combined Authority

### Governance Committee

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**DATE:** 9 December 2014

**SUBJECT:** Request for Dispensations

**REPORT OF:** Monitoring Officer

#### **EXECUTIVE SUMMARY**

The purpose of this report is to consider and determine requests for dispensations from three Members of the Leadership Board in relation to their registerable personal interests as Directors of the Newcastle International Airport Limited.

#### **RECOMMENDATIONS**

The Committee is requested to:

- (1) determine the requests for dispensation submitted by Members of the Leadership Board; and
- (2) authorise the Monitoring Officer to issue a certificate of dispensation to the Member concerned where dispensations are granted; and
- (3) authorise the Monitoring Officer to grant dispensations to the Members of the Leadership Board who are also Directors of Newcastle International Airport Limited where such requests are not received in time for consideration by the Governance Committee.

#### **1 Background Information**

- 1.1 At the Annual Meeting of the NECA, Members of the Leadership Board and those nominated by the Constituent Authorities are appointed to the various Committees and Sub-Committees of the Authority. The Members of the Leadership Board and the Members of the Constituent Authorities are required to register their registerable and non-registerable personal interests under the NECA's Code of Conduct for Members. Those interests may relate to any item of business considered at a NECA meeting and may mean that a Member is required to declare an interest in an item of business and leave the meeting.
- 1.2 The Localism Act 2011 introduced a more generous regime of dispensations to that which existed under the previous arrangements. Such dispensations enable a Member to participate in a meeting dealing with a matter relating to a Member's registerable interest provided that an appropriate dispensation is in place. Where such a matter arises Members may now be given a dispensation either to speak but not vote, or to speak and vote, on several grounds, including that it would be in the interests of local people to allow a

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dispensation, or even that it is simply “appropriate to grant a dispensation”. Dispensations may last for up to four years.

- 1.3 There are three Members of the Leadership Board who are also Directors of Newcastle International Airport Limited (NIAL). Items of business for consideration by the Leadership Board may arise that relate to the NIAL. Although it is possible for Substitute Members to attend such meetings instead of the Leaders, if such Substitutes are not available there are material risks that the Leadership Board will not be able to proceed to consider that item of business. The quorum for the Leadership Board is high with 6 of the 7 voting members required to attend with some items of business requiring a unanimous decision.
- 1.4 As a result Members of the Leadership Board who are also Directors of the NIAL have sought dispensations from the requirements of the Code of Conduct, under Section 33(2)(c) and (e) of the Localism Act 2011. The dispensation sought is to enable the Member to remain in the meeting during the consideration of the item and participate on the discussion but not to vote on the item. If a dispensation is granted it will enable the Member to speak on any item of business considered at the Leadership Board relating to NIAL. The letters from Members seeking dispensations are attached at Appendix 1.
- 1.5 A dispensation can be granted in the following circumstances –
  - (1) So many Members of the decision-making body have interests that require them not to take part in a matter that it would “impede the transaction of the business”. Effectively this means the decision-making body would be inquorate as a result;
  - (2) Without a dispensation, no member of the Leadership Board would be able to participate on the matter;
  - (3) Without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter;
  - (4) the NECA considers that a dispensation is in the interests of persons living in its area;
  - (5) the NECA considers that it is otherwise appropriate to grant a dispensation.

In view of the potential for the Leadership Board not to be quorate when business relating to the NIAL are to be considered it is recommended that dispensations are granted on the ground that the dispensation is in the

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interests of persons living in the area and it is otherwise appropriate to grant the dispensation.

- 1.6 The dispensation can be granted for up to a period of 4 years, however in accordance with previous practice adopted by the Committee Members may wish to grant the for a period of 2 years. The period can be extended if considered appropriate on expiry.
- 1.7 The Committee should note that the Code of Conduct for Members includes pre-existing dispensations in relation to the matters listed below but these are not areas that are likely to be considered by the Leadership Board or Members of the Constituent Authorities save perhaps for indemnities to Members and the setting of the annual precept. The pre-existing dispensations are:-
  - Housing
  - School meals or transport
  - Statutory sick pay
  - An allowance, payment or indemnity given to Members
  - Any ceremonial honour given to Members and
  - Setting the Council Tax or precept.

## **2 Proposals**

- 2.1 That the Committee consider and determine the requests for dispensations.

## **3 Next Steps**

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

## **4 Potential Impact on Objectives**

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

## **5 Finance and Other Resources**

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

## **6 Legal**

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

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### **7 Other Considerations**

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

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

#### **7.2 Human Rights**

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

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

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

#### **7.4 Risk Management**

There are no risk management implications 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 Plans in the Policy Framework**

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

### **10 Appendices**

10.1 Appendix 1 Dispensation Request Letters

### **11 Contact Officers**

11.1 Vivienne Geary, Monitoring Officer – Tel: 0191 643 5339 –  
vivienne.geary@northtyneside.gov.uk

# North East Combined Authority

## Governance Committee

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### 12 Sign off

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

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Contact: Cllr Simon Henig  
Direct Tel: 03000 268 820  
Fax: 0191 383 3662  
email: simon.henig@durham.gov.uk  
Your ref:  
Our ref: CAL/SH/PC



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

11 November 2014

Dear Ms Geary

Re: Application to Governance Committee for a Dispensation

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

As a result of my role as a Director of NIAL, when the Leadership Board meets to consider an item of business that relates to the NIAL, I must declare my interest in that item and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 voting members and if one other such member is unable to attend the meeting, in the absence of substitutes being available, the meeting will not be quorate and therefore unable to proceed with that business.

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

Yours sincerely,

Councillor Simon Henig  
Leader of the Council

12 NOV 2014

**Leader of the Council**

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

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

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Telephone: 0191 561 1321  
Fax: 0191 553 1323  
Web: [www.sunderland.gov.uk](http://www.sunderland.gov.uk)

Date: 12 September 2014  
Our ref: PW/SC  
Your ref:

Dear Ms Geary

## APPLICATION TO GOVERNANCE COMMITTEE FOR DISPENSATION

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

As a result of my role as a Director of NIAL, when the Leadership Board meets to consider an item of business that relates to the NIAL, I must declare my interest in that item and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 voting members and if one other such member is unable to attend the meeting, in the absence of substitutes being available, the meeting will not be quorate and therefore unable to proceed with that business.

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

Yours sincerely



Councillor Paul Watson  
Leader of the Council  
Direct Line 0191 561 1320  
E-mail [cllr.paul.watson@sunderland.gov.uk](mailto:cllr.paul.watson@sunderland.gov.uk)

Residence: 17 Bink Moss, Mayfield, Washington NE37 1GD

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North East Combined Authority

Governance Committee

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**DATE:** 9 December 2014

**SUBJECT:** Request for Dispensation

**REPORT OF:** Monitoring Officer

## **EXECUTIVE SUMMARY**

The purpose of this report is to determine a request for a dispensation for Councillor John Eagle in relation to his registerable interest i.e. his employment status.

## **RECOMMENDATIONS**

The Committee is requested to:

- (1) determine the request for a dispensation submitted by Councillor Eagle; and
- (2) If granted, authorise the Monitoring Officer to issue a certificate of dispensation to the Member concerned.

## **1 Background Information**

- 1.1 Councillor John Eagle is the Gateshead Council representative on the North East combined Authority (NECA) Overview and Scrutiny Committee (OSC). He is also the OSC Vice-Chair for the current year. He is employed by Nexus Rail as a signals supervisor on the Metro, which is a pecuniary interest and registered as such in the register of members interests. NECA obviously plays a major strategic role with regard to transport in its area and it is inevitable that the OSC will be dealing with transport related matters. It is likely, therefore, that Councillor Eagle will have a technical pecuniary interest particularly where reports deal with the Metro or Nexus. Such an interest would require him to take no part in any discussion at relevant meetings and not vote. Councillor Eagle has submitted a request for a dispensation which is attached at Appendix 1.
- 1.2 The Localism Act 2011 introduced a more generous regime of dispensations to that which existed under the previous arrangements that enables a Member to participate in a meeting relating to a Member's registerable interest provided that the Member has an appropriate dispensation. Members may now be given a dispensation either to speak but not vote, or to speak and vote, on several grounds, including that it would be in the interests of local people to allow a dispensation, or even that it is simply "appropriate to grant a dispensation".

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1.3 A dispensation can be granted in the following circumstances –

- (1) So many Members of the decision-making body have interests that require them not to take part in a matter that it would “impede the transaction of the business”. Effectively this means the decision-making body would be inquorate as a result;
- (2) Without a dispensation, no member of the Leadership Board would be able to participate on the matter;
- (3) Without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter;
- (4) the NECA considers that a dispensation is in the interests of persons living in its area;
- (5) the NECA considers that it is otherwise appropriate to grant a dispensation.

Councillor Eagle is not in a position of direction or control within his employing organisation but could bring his knowledge of transport related issues to any discussion. It is therefore considered that it would be in the interests of persons living in the area, and that it would be otherwise appropriate, to grant the dispensation. He requests a dispensation from the need to desist from taking part in a discussion at a meeting, but is not requesting a dispensation with regard to voting as he would not expect to vote where there is a potential conflict as a result of reports dealing with Metro or Nexus.

1.4 The dispensation can be granted for up to a period of 4 years, and this is considered appropriate in the current circumstances

## **2 Proposals**

2.1 That the Committee consider and determine the requests for a dispensation.

## **3 Next Steps**

3.1 If the dispensations is granted then a certificate of dispensation will be forwarded to Councillor Eagle by the Monitoring Officer.

## **4 Potential Impact on Objectives**

4.1 The issue of dispensations relates to the good governance of the NECA and its Overview and Scrutiny function.

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

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

### **6 Legal**

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

### **7 Other Considerations**

#### 7.1 Consultation/Community Engagement

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

#### 7.2 Human Rights

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

#### 7.3 Equalities and Diversity

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

#### 7.4 Risk Management

There are no risk management implications 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 Plans in the Policy Framework**

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

### **10 Appendices**

10.1 Appendix 1 Dispensation Request Letters

### **11 Contact Officers**

11.1 Vivienne Geary, Monitoring Officer  
Tel: 0191 643 5339  
[vivienne.geary@northtyneside.gov.uk](mailto:vivienne.geary@northtyneside.gov.uk)

### **12 Sign off**

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

# North East Combined Authority

## Governance Committee

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### APPENDIX 1

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

My Ref.           MEH/SLH  
Your Ref:

Date:             29 October 2014

Dear Ms Geary

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

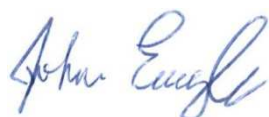
I am a member of the North East Combined Authority's (NECA) Overview and Scrutiny Committee (OSC) and it's vice-chair for the current year. I am also employed by Nexus Rail as a signal supervisor.

NECA obviously plays a major strategic role with regard to transport in the region and it is inevitable that the OSC will be dealing with transport related matters. It is likely, therefore, because of my employment position that I will have a technical pecuniary interest particularly where reports deal with the Metro or Nexus. I am not in a position of direction or control within my employer or those they are contracted with and feel it would be to the detriment of the people of the NECA area if I were not able to bring my knowledge of transport (along with my experience of OSC's) to bear on such matters.

I am therefore requesting that you proceed to ask the Governance Committee to grant me a dispensation from the need to desist from taking part in a discussion about these matters at a meeting. I am not requesting a dispensation with regard to voting as I would not expect to vote where there is a potential conflict as a result of reports dealing with Metro or Nexus.

I would be grateful for your assistance with these matters.

Yours sincerely



Councillor John Eagle

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## North East Combined Authority

### Governance Committee

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**DATE:** 9 December 2014

**SUBJECT:** North East Combined Authority Budget 2015/16

**REPORT OF:** Chief Finance Officer

#### **EXECUTIVE SUMMARY**

This report introduces the progress being made for setting the budget and capital programme for the North East Combined Authority 2015/16.

#### **RECOMMENDATIONS**

Governance Committee is recommended to receive the attached reports for information and comment.

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### **1 Background Information**

- 1.1 Preparation of the budget and capital programme for 2015/16 is currently under way. This report is an opportunity to update Governance Committee members on progress, and provide copies of reports which have been produced for various committees so far. An update will be provided at the meetings on further progress and discussions to date.

### **2 Proposals**

- 2.1 The budget proposals for 2015/16 as they currently stand are set out in the report attached as an appendix. Further detailed reports on the revenue budget and the capital programme will be considered by the Transport North East Committee on 4 December, and these will be circulated to Governance Committee members once the agenda for that meeting has been published.
- 2.2 Appendix 1 is the report on the overall NECA budget which was presented to the Leaders Board on 21 October 2014.

### **3 Next Steps**

- 3.1 The final budget and capital programme will be presented to the Leaders Board at their meeting on 20 January 2015, taking into account comments made as part of the consultation.

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

- 4.1 There are no direct impacts on objectives as a result of this report. The revenue budget and capital programme proposed will enable the Combined Authority to have the resources available to deliver on its objectives.

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

- 5.1 The views of the Chief Finance Officer are reflected in the body of the report.

### **6 Legal**

- 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. It is part of the role of NECA Governance Committee

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to consider financial reporting.

- 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 is subject to a period of consultation which includes this committee as well as Transport North East Committee, Overview and Scrutiny Committee, the North East Chamber of Commerce and various officer groups.

#### **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 Background reports attached as appendices.

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

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

### **10 Appendices**

- 10.1 Appendix A – Report on the 2015/16 Budget (North East Leaders Board 21 October 2014)

### **11 Contact Officers**

# North East Combined Authority

## Governance Committee

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11.1 Eleanor Goodman, Senior Accountant, [eleanor.goodman@newcastle.gov.uk](mailto:eleanor.goodman@newcastle.gov.uk),  
Tel: 0191 277 7518

### **12 Sign off**

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

# North East Combined Authority

## Leadership Board

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**DATE:** 21 October 2014

**SUBJECT:** North East Combined Authority Budget 2015/16

**REPORT OF:** Lead Chief Executive 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 2015/16 Budget Report for the North East Combined Authority (NECA) for consideration by the Leadership Board on 20th January 2015. Identifying them in this report forms the basis for consultation on NECA's Budget as required in its constitution. Not all the information needed to complete the budget is currently available. Further information about the detailed content of the budget is currently being developed, including information still to be announced or confirmed about some funding from Government. 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 Budget report alongside points that emerge from consultation.
- 1.2 This is the first formal Budget process that is being undertaken since the new Combined Authority was established in April. It builds upon the budget that was inherited for the current transitional year. NECA is required by law to set its Revenue Budget and Transport levies for 2015/16 by 15<sup>th</sup> February 2015 at the latest, so that the constituent councils can take the levies into account in setting their own budgets for 2015/16. It has been agreed that the Leadership Board will set the Budget and levies at its scheduled meeting on 20 January 2015, which will provide the information about levies in good time for the seven constituent councils to include it within their budgets.
- 1.3 This budget report sets out the indicative level of resources planned to be used in 2015/16 to help deliver the Objectives of NECA and the North East Strategic Economic Plan, which have been agreed by the North East Local Enterprise Partnership (NELEP). It is a policy led budget, which has also to be set in the context of the national position of austerity, which requires further savings to be achieved in local authority revenue spending; while also making available additional capital funding and provide incentives to help deliver investment in transport and infrastructure and to help secure economic growth.

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1.4 At this point it is envisaged that –

- Capital Investment in transport, infrastructure and economic development appears likely to increase significantly in 2015/16, by almost £30m, potentially to around £130m or more, which is mainly the result of the region's success in the Growth Deal bids for Government Capital funding following the submission of the Strategic Economic Plan; investment relating to Enterprise Zones; and the continued investment in Metro's Asset Renewal Plan which attracts 90% grant funding from DfT;
- The budget is likely to include additional funding for investment in Skills, partly funded from a substantial allocation of almost £100m of European Social Funding to be available from 2015 to 2020 and a bid for Mental Health Skills funding of £1.7m that has been applied for;
- The provisional Transport Revenue Budget and Levies for 2015/16 are estimated to be almost £89m, which is a small cash reduction compared with the current year, to be delivered mainly through efficiency savings while seeking to maintain service outcomes; and
- The only significant fees or charges to be set by the NECA as part of the 2015/16 budget relate to Metro Fares, where an increase below RPI inflation is envisaged for implementation on 2 January 2015, and the Gold Card and Tyne Tunnel Tolls which will not change next year.

## 2 RECOMMENDATIONS

2.1 It is recommended that the Leadership Board –

- a) receive this report for consideration and comment;
- b) agree the budget approach of setting out a detailed budget for 2015/16, while seeking to develop a five year medium term plan to set the context for the detailed budget and developing a longer term infrastructure plan to support future funding bids, recognising that not all information will be available to enable the medium/long term plans to be completed in full by January 2015 and this will continue to be developed during 2015;
- c) agree that the following points and proposals form the basis of consultation about the NECA 2015/16 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;

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2. Resources will be identified and secured to support the capacity of the NELEP and NECA to secure the resources and deliver the actions needed to deliver the SEP strategic objectives. Where possible, the revenue resources required to support the delivery of the objectives will be found from securing additional funding or offset by savings in existing budgets, in order to minimise the costs falling on the hard pressed revenue budgets of the seven constituent authorities;
3. The Transport Budget and Levy for Tyne and Wear is indicatively proposed to be set at £67.2m, which is a reduction of £1.0m (-1.5%), achieved by efficiency and other ITA cost savings and use of reserves. The grant to Nexus funded by the levy is proposed to be £64.5m, a saving of £0.42m achieved from efficiency savings in non-bus budgets. The budget for Bus Services will be protected at its current level in cash terms, which is consistent with the need to maintain this level of resource for the period of up to 10 years in line with the Bus Strategy. This will maintain service outcomes while improving value for money provided to districts and enabling them to help meet national funding cuts and fund any increase in contribution to non-transport NECA budgets;
4. The indicative Transport Budget and Levy for Durham County area is £16.057m, which is an increase of £0.467m (3%) on the original budget for 2014/15, due mainly to cost pressures in connection with concessionary Travel;
5. The current year's Transport Budget for Northumberland County area is £5.5m. Proposals about the level of the Budget and Levy for 2015/16 are still under consideration and will be circulated when available;
6. Proposals for the uplift in Metro fares to cover inflation cost pressures will be developed to constrain the average increase to less than the latest 2.4% RPI inflation index. No increase is envisaged in Gold Card prices. No increase in Tyne Tunnel Tolls is envisaged for January 2015, with the timing of the next increase to keep pace with inflation being subject to the level of future increase in the Retail Price Index;
7. The detailed budget report in January will include the outcome of consideration of proposals to enable the early release of potential benefits from the Enterprise Zones to support the Delivery of SEP objectives as determined by the NELEP. It will set out financing cost savings and funding flexibilities that NECA can provide to enable the

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NELEP to allocate additional resources to further support the achievement of the SEP objectives; and

8. NECA will set out a balanced budget for 2015/16, 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.

### **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 can secure will be targeted to achieve the priorities set out in the Strategic Economic Plan (SEP) and the Transport Levies that the Combined Authority will set will help meet the statutory transport responsibilities of the Combined Authority, which can also contribute to priorities in the SEP.
- 3.3 The Combined Authority has agreed three broad Policy priority areas –
- **Transport**
  - **Employability and Inclusion**
  - **Economic Development and Regeneration**
- 3.4 The North East Strategic Economic Plan 2014 which was published by the NELEP in April 2014 is aimed at 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 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.



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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 lets everyone fully share in the benefits of a growing economy.
  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.

### 3.6 Innovation Theme

- 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 commissioning in 2015/16:

#### Local Growth Fund

Project	Total value	2015/16 Investment
Centre for Innovation in Formulation, led by the Centre for Process Innovation (CPI), based at NetPark	£7.4 m	£0.75 m
Low Carbon Energy centre, to be based at Newcastle Science City	£5.6 m	£1.30 m
Newcastle Life Sciences Incubation Hub to be based at Newcastle University	£5.6 m	£5.50 m
NETPark Infrastructure Phase 3	£6.8 m	£0.47 m
Sunderland Enterprise and Innovation Hub, to be hosted at Sunderland University	£3.5 m	£1.50 m

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### European Regional Development Fund (ERDF)

- 3.6.3 An Innovation programme is being developed which relies heavily on successful bidding for European Funding for delivery. Key projects include a North East Innovation Supernetwork, University Research Commercialisation and Innovation Project Support. Access to European Funding is anticipated from April 2015.
- 3.6.4 In addition, a key action will be the creation of the North East Innovation Board and capacity in the Executive Team to provide leadership. This will require the creation of a core budget for innovation which supports this work, which will also include resources for marketing and intelligence activity. The cost of this capacity is expected to be achieved from core budgets, European Technical Assistance funding and in-kind secondment(s).
- 3.6.5 Through this capacity, the Executive Team will support partners to develop a range of other activities and facilities aligned with the strategy set down within the SEP, securing investment from sources including Department for Business, Innovation and Skills (BIS), Innovate UK and its agencies, Horizon 2020, Research Councils and other available funding streams as well as leveraging private investment and inward innovation investment.
- 3.6.6 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 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:

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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

- 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:

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

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- 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 2015/16 will be:

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

<b>Project Title</b>	<b>Total project cost (£m)</b>	<b>LGF investment (£m)</b>
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	10.00
Newcastle College Group - Low Carbon Tech Centre	30.00	9.90
Port of Blyth Offshore and Wind Energy Training Facility (BEACH)	1.20	0.40

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### 3.9 Employability and Inclusion

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 £1.7million 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

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engage with the scheme; and strengthening the network of Employment Advisers and Peer Mentors for those young people with the greatest needs.

### 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 It is vital that we continue to make a very strong strategic case for further future investment in the region's economic assets and infrastructure. For this reason it is important that we progress our commitment to work 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, housing and energy infrastructure.

3.10.3 The Growth Deal announced substantial infrastructure funding from 2015/16 and 2016/17. It is uncertain when there will be another round of Growth Deals but the proposed Investment Plan will enable the region to compete effectively for the other funding sources available. In addition, the Scotland Referendum has raised the possibility of increased devolution to the regions and the presence of a long term vision of how resources will make a difference to the region's economic future has the potential to greatly support the case for more autonomy over larger sums of the national spending programmes.

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 (£m)	LGF Allocation (£m)
Swans Wet Berth Infilling	18	8
Infrastructure for Merchant Park	10	10
North East Rural Growth Network	22	6
<b>Totals</b>	<b>50</b>	<b>24</b>

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3.10.5 The new European Structural and Investment Fund programme with an estimated £460m available over the programme period (2015-2023) 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 up to £10m per annum of the 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 opportunity for the future.

3.10.6 It is vital that the limited local resources available are used to best effect 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.

### 3.11 **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 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



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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.

3.11.6 Next year should see a significant increase in capital investment in Highway and Transport projects. The initial programme for 2015/16 is estimated to be at least £130m, which represents an increase of almost £30m (29%), which is mainly the result of successful Growth Deal Funding for major schemes. The growth deal also included an announcement of a further investment of £69.6m for schemes starting in the following year 2016/17 in addition to the Metro asset renewal programme and LTP funding programmes.

### Indicative Growth Deal Transport Projects

Area / Promoter	Scheme	Total scheme cost	SEP Contribution (£m)	2015/16 Indicative grant
		£m	£m	£m
Durham	Horden (Peterlee) Station	7.00	3.34	3.34
North Tyneside Council	A1058 Coast Road major scheme (Billy Mill – Norham Road Improvements)	8.70	5.84	2.94
Sunderland City Council	Low Carbon Zone Infrastructure	13.50	5.95	5.95
South Tyneside Council/Nexus	South Shields Transport Hub: Consolidation of Metro and bus terminals in the heart of South Shields.	13.60	6.90	2.07
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 2), Cowgate to Osborne Road.	8.10	4.09	3.50
Gateshead Council	A167 Park and Ride corridor	7.46	4.99	2.46
Newcastle City Council	A1 corridor complementary local network works - Scotswood Bridgehead improvements	4.20	3.70	1.70
North Tyneside Council	A1056-A189 Weetslade roundabout improvements and A1-A19 link (A1056)	4.80	4.32	0.68
Newcastle City Council	Direct link from Newcastle Central station to the Stephenson Quarter regeneration site (£200m)	10.00	6.00	1.00
Nexus	Central Metro Station Refurbishment	7.88	2.51	2.51
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 3), Osborne Road to Haddricks Mill.	4.93	4.43	0.50
South Tyneside Council	A194/A185 (The Arches) Junction	6.70	5.83	0.00
South Tyneside Council	A19/A194/A1300 Lindisfarne Roundabout	4.00	3.48	3.48
North Tyneside Council	A191 junctions including coach lane and Tyne View Park	1.50	1.50	1.00
North Tyneside Council	A19 employment corridor access improvements e.g. the roundabout of A191 and The Silverlink North	4.70	4.70	0.50
LA7 LSTF 2015/16 Capital Package	UTMC, 'Gateway Improvements', Cycle package to complement revenue bids for A1/A19 corridor, Northumberland and Durham	7.52	7.52	4.00
		<b>114.60</b>	<b>75.10</b>	<b>35.63</b>

Note figures are still indicative and will be updated in the January report.

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- 3.11.7 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.
- 3.11.8 While the Transport Revenue Budget and levies proposed for 2015/16 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.
- 3.11.9 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.
- 3.11.10 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 15<sup>th</sup> 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 2015/16. Further guidance is expected shortly about the monitoring, accounting and governance requirements to be required from LEPs and Accountable Bodies as part of the grant conditions relating to the release of the additional Growth Deal Funding secured from Government next year. The budget will need to reflect the guidance and the resource requirements needed to meet the 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 2015/16 Budget for NECA in the context of as much information as possible over a five year Medium Term Plan period. For NECA this would involve developing a revenue budget and capital programme for Highway/Transport; Economic Development (including LEP activity); Skills; and a Corporate Budget. This will need to reflect the latest announcements on new external funding for

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2015/16 onwards and any new announcements over the coming months. While as much information as possible will be collected to present the MTFS in January, more information is likely to be available for Transport services and it is likely that additional information about funding and spending priorities for skills and economic development will be needed in order to fully develop the plan for these areas over a five year period.

- 4.4 A five year period is considered appropriate because it would cover a sufficiently long period to show how the current revenue deficit within the Nexus Budget for transport activity in Tyne and Wear could be addressed and show the planned use of reserves over the period. It would also reference events in the later years of the MTFS period, which could have an uncertain but potentially material impact on the Budget in those years, for example changes in national insurance contributions, the 2016 pension valuation and re-letting the Metro Concession together with confirmation of DfT funding for Metro operations effective from 2019 when the current 9 year arrangement, established in 2010 is renewed.
- 4.5 The capital investment programme will include schemes that have been approved so far with funding secured. It would also be appropriate to identify resources that may be available and potential schemes in development for future funding bidding rounds. The detailed capital programme is a dynamic document that will be updated on a regular basis as information about projects and funding approvals is received. It will be considered and updated in periodic monitoring reports to the Leader's Board.
- 4.6 Major transport and infrastructure projects can have a very long planning, design and implementation period, with future ambitious plans, such as the replacement of the Fleet of Metro cars, and potential Metro system extensions, covering a period of 15 years or longer. Early identification and development of potential projects to help achieve the Strategic Long Term policy objectives of the Combined Authority can help with the development of project plans, business cases and preparing funding plans and bids. It is proposed that a longer term view of investment over a 15 to 20 year period be developed. It is anticipated that this will take 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.
- 4.7 A key decision in the Revenue Budget is what the level of the Transport Levy will be for 2015/16 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.
- 4.8 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

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consideration of the budget report by Overview and Scrutiny Committee, the seven constituent councils, consideration by NELEP and a consultation with the North East Chamber of Commerce.

- 4.9 To ensure that a Budget Report is prepared for the Leaders Board in January which can secure unanimous approval from Leaders it is necessary to ensure that the budget is policy led and that any issues that need to be taken into account are highlighted during the early stages of the preparation of the Budget in the next few months, with any issues resolved by mid December so that a final report can be drafted for circulation on 9<sup>th</sup> January. The budget proposals need to be considered by the NELEP and by the Transport Committees as well as the Overview and Scrutiny Committee.
- 4.10 Leaders have made clear the need for a policy led 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 2015/16 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 2015/16 Budget Report for consideration in January 2015.
- 4.11 The timetable for developing the 2015/16 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 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. The consultation process itself needs to be considered in more detail and set out in the report to the October 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. While final Government Revenue grant levels have not yet been confirmed, the Government's provisional funding allocations for 2015/16 announced earlier this year indicated a significant extra cash cut in total revenue spending power for the seven councils in the NECA area in 2015/16 of -£64m, which is around 80% higher than the headlined national average cut in spending power.

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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 submitted by NELEP and NECA was particularly successful, with indicative funding amounted to £289m from 2015/16 onwards announced in July, including £93.1m of previously committed funding. The grant approval letters are expected to be signed off in the next few months in time to be fully reflected in the January Budget report.

## 6 BUDGET PROPOSALS

### 6.1 Capital Investment / Expenditure

6.1.1 The capital investment programme in the current year is estimated at £100.6m, mainly made up of Metro asset renewal investment programme and Local Transport Plan capital investment, summarised in Appendix 3. Initial estimates for 2015/16 indicate that this is likely to rise to over £130m, mainly as a result of the additional funding for transport and infrastructure announced as part of the Growth Deal.

6.1.2 The substantial programme of Metro asset renewal and improvement works is continuing with an increase programme of £41m envisaged for 2015/16.

6.1.3 The Local Transport Programme Integrated Transport Block has been announced for 2015/16 at £13.95m. This represent a reduction of -£10.67m (-43%) compared with the £24.62m programme in the current year, mainly as a result of the 43% national topslice in this funding block to help finance the Growth Deal. Effectively the loss of this general funding has partly funded the new Growth Deal projects.

### 6.2 Transport Revenue Budgets and Levies for 2015/16

6.2.1 Revenue transport budgets in 2014/15 amounted to £89.34m. Indicative changes identified so far for Durham and Tyne and Wear would involve a net reduction in this budget of £0.540m (-0.6%). Give the significant national higher pressures of funding cuts, this demonstrates the importance and high priority given to Transport in the region.

6.2.2 The 2015/16 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, the out-going Tyne and Wear Integrated Transport Authority (TWITA) Service Level Agreement 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

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detailed budget proposal that will be considered by the Leadership Board in January.

### **Durham County Council**

- 6.2.3 The Budget and Levy for public passenger transport activity in County Durham is expected to be in the region of £16.057m for 2015/16. This compares with a budget of £15.590 in 2014/15.
- 6.2.4 Following a recent retendering exercise there has been a reduction in overall tendered bus service costs. However, this is being offset by continued pressure on concessionary fare reimbursement to operators, in line with fares inflation and a general increase in the number of concessionary travel journeys.
- 6.2.5 After a number of years of major changes in the commercially operated bus services, the overall bus network in County Durham appears to have now stabilised. There is a modest growth in passenger numbers over the past 12 months and this trend is forecast to continue over the coming year. There is not expected to be any significant commercial changes in 2015/16 and only a very small number of planned contract renewals. The focus of our spend will therefore be on maintaining the current contracts, which provide a level of accessibility in rural and semi-rural areas and supplement the daytime commercial network with early and later journeys.
- 6.2.6 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 budget. This will continue to involve working closely with schools, our education colleagues and our transport operators with a focus on developing the interface between scholar services and the public transport network.

### **Northumberland County**

- 6.2.7 The revenue Transport Budget in 2014/15 is £5.5m. In the context of the requirement for significant savings over the next 3 years the Council is currently reviewing all areas of discretionary spending and this includes supported bus services. Any proposals to amend the Council's existing policy will be consulted upon during the next few months as part of the budget setting process. In respect of concessionary travel the council will continue to enforce an effective application of the policy for the issue of concessionary passes.

### **Tyne and Wear**

- 6.2.8 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 £67.2m. This is a reduction of £1.007m on the budget in 2014/15, achieved by efficiency and other cost savings in the ITA and Nexus Budgets and the use of ITA reserves. This will maintain service

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outcomes while improving value for money provided to districts and help them to meet national funding cuts, as well as fully funding any increase in contribution to non-transport NECA budgets.

6.2.9 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 2015/16 for each of the Tyne and Wear districts is shown below.

	2014/15 Levy	Indicative 2015/16 Levy	Change			
			Population Change	Levy Reduction	Total	
	£	£	£	£	£	%
Gateshead	£12,318,818	£12,069,094	-£68,844	-£180,880	-£249,724	-2.0%
Newcastle	£17,383,460	£17,308,521	£184,466	-£259,404	-£74,939	-0.4%
North Tyneside	£12,398,399	£12,199,080	-£16,490	-£182,829	-£199,319	-1.6%
South Tyneside	£9,135,299	£8,962,961	-£38,010	-£134,328	-£172,338	-1.9%
Sunderland	£16,971,156	£16,660,344	-£61,122	-£249,690	-£310,812	-1.8%
<b>Tyne &amp; Wear</b>	<b>£68,207,132</b>	<b>£67,200,000</b>	<b>£0</b>	<b>-£1,007,132</b>	<b>-£1,007,132</b>	<b>-1.5%</b>

6.2.10 This reduction would bring the overall annual transport levy reduction to £10.3m, plus £1.4m of retained grant annually since 2010/11, achieved through efficiency savings and use of reserves, whilst protecting service outcomes. This level of saving while protecting service outcomes is a significant achievement, particularly in the light of the cost pressures in respect of concessionary Travel and outcomes in other regions around the country where there have been some significant cuts in services.

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

	2014/15	2015/16	Change
	£	£	£
<b>ITA Costs</b>	3,287,132	2,700,000	-587,132
<b>Grant to Nexus</b>	64,920,000	64,500,000	-420,000
	<b>68,207,132</b>	<b>67,200,000</b>	<b>-1,007,132</b>

6.2.12 Savings on the former ITA 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 in non-bus budgets. The budget for Bus Services will be protected at its current level in cash terms, which is consistent with the need to maintain this level of resource in cash terms for the period of up to 10 years in line with the Bus Strategy.

6.2.13 The Nexus Budget is balanced by use of £2.8m planned use of reserves to fund bus costs pending the delivery of further efficiency savings in future

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years while maintaining service outcomes. Further details of the ITA and Nexus Budgets will be reported to Tyne and Wear Sub Committee for consideration.

### **6.3 Economic Development / NELEP Capacity**

6.3.1 The NELEP core team is part funded from a Government contribution matched by a contribution from the constituent authorities. The Government has announced a continuation of their £250k grant in 2015/16. Match funding will continue to be provided and is funded by equal contributions from the seven constituent authorities. It is important to secure greater certainty about the available funding over the medium term period of up to 5 years, to ensure that effective capacity can be put in place to deliver the SEP project and programme related activity. Additional funding sources are also being identified to cover project and programme related activity.

6.3.2 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.

### **6.4 NECA Corporate Costs**

6.4.1 When NECA was established the LA7 support budget was increased by around £60k to create a small corporate budget of £140k for the transitional year (£20k for each council). It is now clear that the corporate costs are higher than this and an exercise is underway to identify the revised estimate of costs in 2014/15 and the level of the capacity required from 2015/16, including the additional accountable body responsibilities that will be placed on NECA as part of the Growth Deal funding and its grant conditions, which are due to be received shortly.

6.4.2 The main areas of cost relate to support and input from the Lead 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 an indicative budget of up to £300k (an extra £160k - £22.8k for each authority) is suggested for planning purposes. As more information is collected on capacity requirements this will be considered and evaluated in more detail over the next month, with details of the final proposals reported in January. Given the scale of the organisation and its responsibilities, this level of costs is relatively low.

6.4.3 In Tyne and Wear compensating savings have been found in the transport budget, but it is not simply possible to transfer the funds between transport and corporate budgets. This is because separate accounts must be kept in for transport, with is funded by the transport levy and non-transport costs which are funded by separate contributions. The reductions in the Tyne and Wear transport levies produce significant savings of between £75k and £311k per council, some of which can fund the increase in corporate costs for Tyne



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and Wear authorities. Opportunities for offsetting savings are being explored in Durham and Northumberland and at this stage there appear to be opportunities for savings relating to treasury management costs through a pooled mechanism, which could offset the increase in corporate costs. Further details of this are current being considered by Directors of Finance / Treasurers and the Chief Finance Officer of NECA.

### **6.5 NECA funding Flexibilities**

6.5.1 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.

6.5.2 A report commissioned by NELEP from DTZ about the Enterprise Zones is in the final stages of completion and will be reported to the NELEP Board, after which its content can be included in the January Budget report. The flexibilities of treasury management arrangements by NECA should help increase surplus resources which can be used to support economic development initiatives; provide capacity to support delivery and the development of major projects and future funding bids. These proposals are currently subject to consideration by Directors of Resources.

6.5.3 NECA should also be able to assist with more flexibility 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.

### **6.6 Fees and Charges**

6.6.1 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.

6.6.2 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 consideration by the Tyne and Wear Sub-Committee is to increase Metro fares from 2<sup>nd</sup> January 2015 by a weighted average of 2.2%; this figure is slightly below the level of the Retail Price Index of 2.5% (as at July 2014).

6.6.3 This increase is necessary in order to help meet the financial targets required by the Nexus Medium Term Financial Strategy and will build on the improvements identified as part of the January 2014 fares review. In particular, it is anticipated that there will be proposals to introduce new customer benefits associated with the roll out of smart ticketing technology; notably the 'Pop Pay As You Go' product and daily price capping for multiple

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journeys using a smartcard. In addition, the review is exploring ways of further enhancing the offer to young people, particularly 16 to 18 year olds as well as freezing the fare for one zone single journeys.

6.6.4 No increase is planned for the Gold Card next year, with the cost of the Card having been significantly reduced earlier this year

6.6.5 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 was set in January 2014. The tolls are due to rise to keep 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 for August 2014, are such that no increase is needed in January 2015. The date of future toll increases will depend in the increase in inflation as measured by RPI each year. Payments to the operator also rise with inflation. Based on forecast future RPI increases the next date for a toll increase looks likely to be January 2016, when tolls for cars may rise by 10p and tolls for HGVs may rise by 20p. Any increase in future years will be reflected in the budget consultation for 2016/17 onwards.

### 6.7 Reserves and Contingencies

6.7.1 The General Reserve of NECA was set at a relatively low level of £350k for 2014/15. It looks likely that this reserve will be drawn upon to fund corporate costs. The revised estimate of the likely outturn reserves at the end of 2014/15 is currently being assessed and is likely to be between £200k and £250k. The required level of Corporate Reserve will be reassessed based upon a risk assessment taking into account the resources available to meet corporate costs next year and may need to be restored to a higher level.

6.7.2 The Tyne and Wear Transport budget also include a contingency. It is estimated that this will amount to £388k by the end of 2014/15. This will be reduced over the next three years to part fund the proposed cut in the Levy from 2015/16. 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).

6.7.3 Nexus are planning to use some of their general reserves help balance their budget over the next three years.

### 7 Potential Impact on Objectives

7.1 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 on the Combined Authority

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### **8 Finance and Other Resources**

- 8.1 The financial and other resources are summarised in this report, where they are known. Further detail will be identified in time for the January Budget Report, including an update on the available funding sources following the NELEP Board meeting in November.

### **9 Legal**

- 9.1 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.
- 9.2 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.
- 9.3 Once the consultation process has been completed, details of the final proposals in relation to the Revenue Budget and levy will be referred to the Overview and Scrutiny Committee. The Leadership Board when considering the final proposals will take into account the recommendations and/or observations of the Overview and Scrutiny Committee. The Leadership Board must approve the final proposals unanimously.

### **10 Other Considerations**

#### **10.1 Consultation/Community Engagement**

- 10.1.1 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 2015/16 Budget Proposals be reported to the Leaders Board on 21 October to start a consultation process, which will include the Overview and Scrutiny Committee and the North East Chamber of Commerce.
- 10.1.2 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 15<sup>th</sup>

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October, November (if it wishes to do so, date to be confirmed) and 9<sup>th</sup> December.

10.1.3 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 21 October, which will set out the budget proposals in an appropriate format for consultation.

10.1.4 With recommendation for Transport budgets and Levies being considered by committees in December, comments on the initial proposals should be received by 30<sup>th</sup> November 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 24<sup>th</sup> December 2014 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 20th January.

### 10.2 Human Rights

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

### 10.3 Equalities and Diversity

There are no specific issues arising directly from this report.

### 10.4 Risk Management

10.4.1 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.

### 10.5 Crime and Disorder

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

### 10.6 Environment and Sustainability

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

## 11 Background Documents

11.1 NECA constitution. Growth Deal announcement – July 2014. NECA 2014/15 Budget Report – April 2014.

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

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

### **13 Appendices**

- 13.1 Appendix 1 : Updated Budget Timetable (note the diagram is being updated to reflect latest information about dates of meetings);  
Appendix 2 : Summary of Headline Budget Figures.  
Appendix 3 : Summary of Capital Investment Indicative Figures  
Appendix 4 : Summary of NELEP / European Funding

### **14 Contact Officers**

- 14.1 Paul Woods, Chief Finance Officer. Paul.Woods@northtyneside.gov.uk, Tel: 07446936840

### **15 Sign off**

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

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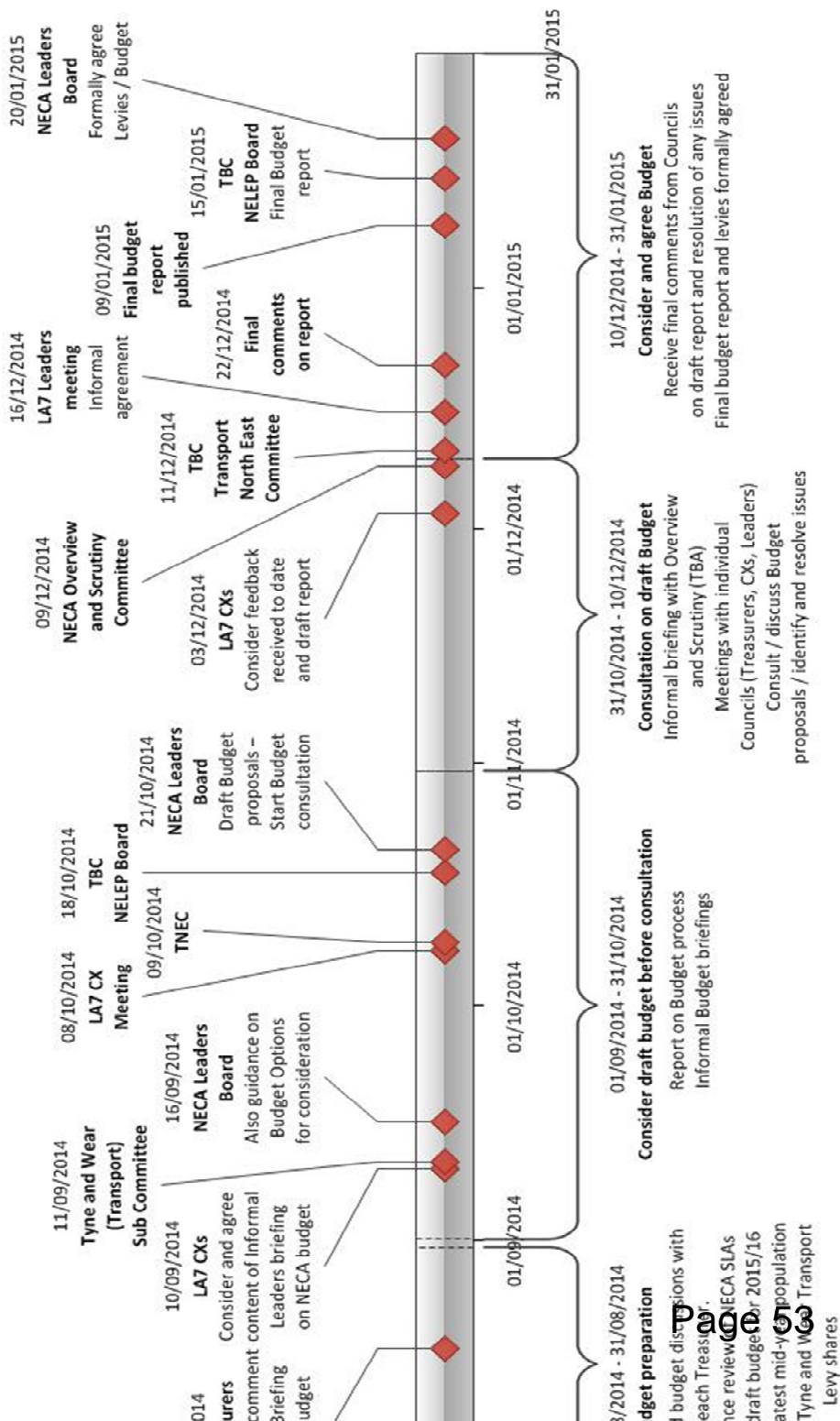
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### Appendix 1 : Budget Timetable

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### Appendix 2 : Summary of Headline Revenue Budget Information 2014/15 and 2015/16 (Indicative)

	2014/15			2015/16
	Total Gross Revenue Expenditure	External Income / Direct Grants / Reserves	Net Revenue Expenditure	Indicative Figures – Net Revenue Expenditure
	£000	£000	£000	£000
<b>Transport</b>				
Tyne & Wear (Grant to Nexus)	115,318	-50,398	64,920	64,500
Tyne & Wear (non-Nexus)	3,287	0	3,287	2,700
Northumberland	5,543	0	5,543	Tbc
Durham	15,590	0	15,590	16,057
<b>Transport Sub Total</b>	<b>139,738</b>	<b>-50,398</b>	<b>89,340</b>	<b>Tbc</b>
<b>NELEP</b>				
LEP Executive Core Team	525	-275	250	250
Growth Strategy Development	250	-250	0	0
Regional Improvement and Efficiency Partnership	190	-190	0	0
ERDF Policy Strategy and Co-ordination	28	-28	0	0
NELEP Skills Advice	55	-55	0	0
Growing Places Fund Administration	90	-90	0	0
Regional Growth Fund Admin.	294	-294	0	0
<b>NELEP Sub Total</b>	<b>1,432</b>	<b>-1,182</b>	<b>250</b>	<b>250</b>
<b>Core Team &amp; Admin.</b>				
Combined Authority Corporate Costs Budget	140	0	140	Up to 300
<b>Total</b>	<b>141,310</b>	<b>-51,580</b>	<b>89,730</b>	<b>Tbc</b>

Note that some of the figures for 2015/16 are not yet available. Figures exclude Tyne Tunnel Gross Expenditure and Income. The NELEP are considering their



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budget figures next month and the figures for use if NELEP funds will be updated when information is available. Detailed figures will be included in the January report

### Appendix 3 : Summary of Headline Capital Expenditure Estimates 2014/15 and 2015/16 (Indicative)

	2014/15 Programme	2015/16 Indicative
	£m	£m
Local Growth Fund – Transport Schemes	n/a	40.15
Local Growth Fund – other	n/a	Tbc
Metro Capital Programme (excluding LTP ITB contribution for match funding, shown below)	36.05	38.36
LTP Integrated Transport Block, (including the match funded contribution to secure the DfT Metro Capital Funding - £2.64m in 2014/15, which also needs to be continued in 2015/16.)	24.62	13.95
LTP Highways Maintenance Block	33.54	33.54 *
Tyne Tunnels Capital Programme	3.50	4.00
Other Capital Grants	2.91	n/a
<b>Total</b>	<b>100.62</b>	<b>130.00</b>

\* LTP Highway Maintenance Block figures for 2015/16 are still to be confirmed.

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### Appendix 4 : Summary of NELEP / European Funding

#### North East Investment Fund

The North East Investment Fund is a £55m loan fund. Managed by the North East LEP the fund includes £25m of Growing Places Fund (GPF) and £30m of Regional Growth Fund (RGF). Local Partners including the local authorities play an important role in securing and delivering European funded projects. 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 has now been allocated with projects drawing down funds in line with their agreed profiles of spend. Loan repayments have already commenced for some projects and will continue in 2015/16 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. The 2 year RGF funding covered the financial years, 2013/14 and 2014/15. £20.5m has been approved towards schemes to date with the remaining balance to be recommended for approval shortly following completion of the necessary due diligence.

#### **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 £47.9m of new funding confirmed for 2015/16 and £69.6 for 2016/17 to 2021. This includes:

- As part of the Government's on-going commitment to the North East LEP a provisional award of a further £78.7m of funding for projects starting in 2016 and beyond; and
- £ 93.1m of funding which the Government has previously committed as part of Local Growth Deal funding to the area.

Please note the headline figures above cover funding for the North East area. Clarity is being sought from central government as to the exact funds which will be managed by the NELEP.

Further guidance from central government is expected shortly on the monitoring and evaluation requirements linked to the Growth Deal Funding award. The necessary systems and processes will be developed and put in place by NELEP and Combined Authority officers once this guidance is received.

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>

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### European Funding Summary

The North East LEP has received a notional allocation of €550.5m worth of European Structural and Investment Funds resource (covering European Regional Development Fund, European Social Fund and European Agriculture Fund for Rural Development). This represents approximately £470.6m<sup>1</sup> of investment and is accompanied by a further £7.7m for the Youth Employment Initiative in County Durham providing significant opportunities.

European Structural and Investment Funds are focused on reducing disparities in economic performance between higher and lower performing areas by driving local growth. In contrast to 2007-13, the programmes for 2014-2020 will be organised at the national level but informed and delivered through a LEP area strategic framework. This is set out in the North East LEP European Structural and Investment Strategy which aligns the local priorities set out in the Strategic Economic Plan to the European objectives of smart, sustainable and inclusive growth. The strategy 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.

The strategy, currently in draft form, has been developed in consultation with, and engagement of, local partners and stakeholders. It is currently in the process of being finalised in tandem with the national negotiations on the Partnership Agreement and Operational Programmes. The Agreement and Programmes will be agreed by the UK Government and the European Commission and set the boundaries for local strategies. Subject to the successful completion of these negotiations, expected in early 2015, local strategies and the resultant project calls will be launched. Preparations for implementation are being taken forward in line with those for the Strategic Economic Plan.

Funding for the preparation and delivery of the European Structural and Investment Funds is provided through Technical Assistance. This is established through articles 58 and 59 of the Common Provisions (1303/2013) which set out a series of parameters for the use of the funding. As with other European funding sources, Technical Assistance requires match funding from local partners. This is separate to project-level delivery funding which should be considered in the development of applications.

Within the 2007-2013 European Regional Development Fund programme Technical Assistance is currently used to support two full time members of staff in the NELEP team to prepare for and implement the 2014-2020 European Structural and Investment Funds programme as well as officers and discrete projects across local partners to support project development and delivery. Current LEP-level arrangements will end once the new programme is approved (TA currently ends Dec 2014) with the wider support due to end by September 2015. Technical Assistance

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<sup>1</sup> Please note this represents the fixed exchange rate used by Government in the planning process and the actual figure will be subject to currency fluctuations over the period of the programme.

# North East Combined Authority

## Leadership Board

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through European Social Fund (ESF) has been more limited in its availability but has also supported some locally based activities.

As part of the UK Government's approach to the 2014-2020 funding period up to half of the Technical Assistance budget (approximately 5% of total spend) is to be made available to local partners to support the delivery of the programme. Local Enterprise Partnerships and local areas will not receive any specific allocation for this funding, but at a proportional rate would represent around £9.2m for the North East LEP area over the programme up to the end of 2023. The resource would include both ERDF and ESF funding, require local match funding and be accessed through an application to the national Technical Assistance allocation. The process for this has yet to be established by national government.

Technical Assistance provides a significant potential resource; however it will require both careful development in response to the need for match funding and the tightly defined framework for eligible activity. Project development and delivery support programme management and strategic support will need to demonstrate differentiation and alignment as appropriate with Managing Authority functions. This is particularly relevant in relation to strategic oversight and support work for the local sub-committee for European Structural and Investment Funds.

# North East Combined Authority

## Transport North East Committee

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**DATE:** 4 December 2014

**SUBJECT:** Transport Capital Programme 2015/16

**REPORT OF:** Chief Finance Officer

### EXECUTIVE SUMMARY

This report outlines to the Transport North East Committee the proposals for the Capital Programme during 2015/16 and the funding sources identified to deliver the programme, which covers a wide range of transport improvements and initiatives.

This represents the latest information about the capital programme. It is important to note that the budget report to January would need to reflect the latest information available, including any new information that may be received after this report has been circulated. Any material changes will be circulated to members of TNEC in advance of the report to the Leadership Board being finalised.

### RECOMMENDATIONS

Transport North East Committee is recommended to:

1. Recommend the transport capital programme as set out in the body of this report to be included in the NECA capital programme to be recommended to the Leaders Board on 20 January 2015;
2. Recommend the distribution of the Tyne and Wear share of the LTP Integrated Transport Block grant to the Tyne and Wear Districts. Further details will be circulated at the meeting;
3. Agree to receive a further report following delivery of the 2014/15 programme, ensuring that any variations during the remainder of the current financial year are accommodated in the capital programme.
4. Note that for planning purposes, Nexus has received verbal confirmation that the DfT investment board resolved at its 11 November meeting, that full (100%) funding for the Metro Asset Renewal Plan for 2016/17 is to be confirmed with an increase from 50% to 75% funding for years 2017/18 and 2018/19 also confirmed. In addition, Nexus has had positive feedback from a recent DfT commissioned audit and full (100%) funding for years 2017/18 and 2018/19 is expected to be confirmed, subject to a further review as part of Spending Review 2015 in late 2015.

# North East Combined Authority

## Transport North East Committee

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### 1 Executive Summary

- 1.1 This report outlines to the Transport North East Committee the proposals for the Capital Programme during 2015/16 and the funding sources identified to deliver the programme, which covers a wide range of transport improvements and initiatives.

### 2 Background Information

- 2.1 The capital programme for transport includes a wide range of schemes which are summarised in the detail below and the attached appendices.
- 2.2 Funding shown as available for the programme is based on reasonable assumptions and existing approvals. However, the programme will continue to be subject to continuous review to ensure commitments do not exceed available resources, after allowing for a reasonable level of overprogramming to ensure programme delivery.

### 3 Capital Programme 2015/16

#### 3.1 Summary

Current estimates indicate that a total of up to £91m capital investment will be delivered by NECA in 2015/16 on the following elements of the Transport programme:

*Table 1: Summary of NECA Transport Capital Programme 2015/16*

	<b>2015/16 Programme</b>
	<b>£m</b>
Metro Asset Renewal Programme	43.220
Nexus Major Projects – Sunderland Station	3.500
Tyne Tunnels Capital Programme	3.100
LTP Integrated Transport Block (less Metro ARP local contribution included above)	11.309
Local Growth Deal Transport Schemes	30.150
<b>Total</b>	<b>91.279</b>

# North East Combined Authority

## Transport North East Committee

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Work on refining these estimates is still ongoing, and changes to the proposed programme, particularly taking into account delivery of the 2014/15 programme, will be reported back to this committee.

### 3.2 Tyne and Wear Metro Asset Renewal Programme (ARP)

During the 2015/16 financial year Nexus will be continuing with Year 6 of the ARP. As in previous years this will cover a wide range and large number of projects spread across all asset groups. However, there are a number of significant projects planned to be delivered that are worthy of particular mention and these are detailed below. More detail is provided in Appendix 1.

#### 3.2.1 Permanent Way

Re-railing of the Queen Elizabeth II Bridge is planned to take place over two weekends in May 2015. This will be followed in July/August by the replacement of switches and crossings at Regent Centre then similar work in the tunnels at St. James station in October. These latter two projects are also planned to be completed during weekend closures. During the course of the year planning and preparation work for major track renewal between Tynemouth and Northumberland Park will take place. The first phase is due to be delivered in spring 2016 during a two week blockade of the line. The second phase is due to be delivered in October 2016.

#### 3.2.2 Communications

During 2015/16 the project to install a new radio system across the network will continue and is due to be completed. This is a safety critical system and whilst not obvious to the travelling public is a fundamental part of Metro operations. The project involves fitting equipment to the metro cars as well as installing new transmission masts and antennae around the system and also new equipment at the Metro control centre in South Gosforth and Network Rail's Tyneside Integrated Electronic Control Centre in Gateshead.

#### 3.2.3 Signalling

Another system which is not obvious to the passenger is the PTI (Positive Train Identification) system. This system uses a variety of technologies to route trains around the system, automatically set signals and measure train performance. A project to replace the existing, obsolete, bespoke system will commence and progress throughout the next two years with completion anticipated in 2017 at the earliest.

#### 3.2.4 Overhead Line

Works to replace the overhead line are planned commence in 2015/16. This will be carried out by the internal Capital Delivery Team and is expected to take around four years to complete. The process of purchasing specialist equipment for this project is already underway.

# North East Combined Authority

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### 3.2.5 Stations

Refurbishment projects at Gateshead Stadium, Felling and Heworth are planned to be completed. Work to refurbish Central Station is due to commence in October 2015 and take about one year to complete. In conjunction with work on the ground, designs for Cullercoats, Monkseaton, West Monkseaton, Manors and Gateshead will be progressed. Furthermore, Nexus will continue working with South Tyneside Council and their development partner on a new Bus/Metro interchange at South Shields.

### 3.2.6 Bridges and Structures

Works to install collision protection measures to three low bridges in South Tyneside is due to take place over the summer of 2015. This will ensure that Metro services can continue to run in the event that these bridges are struck by road vehicles and hence reduce delays to passengers. Designs for a major bridge replacement project at Killingworth Road in Gosforth will be progressed. The construction work for which is scheduled for 2017.

### 3.2.7 Metro Cars

The Metro Cars refurbishment programme is due to be concluded. The final 6 cars are planned to be completed by July 2015.

### 3.2.8 Sunderland Station

Nexus is working with Sunderland City Council and Network Rail to progress the redevelopment of the above ground part of Sunderland Station. The scheme will focus on redeveloping the concourse area with improved access, retail offering and passenger information. The exterior of the building will provide a light and bright focal point for the area incorporating artwork. Wider public realm improvements are being considered by the City Council as a second phase to the scheme. Design work is underway and it is anticipated that construction will commence during 2015/16. The scheme is estimated to cost in the region of £6-7million with Nexus contributing £3.5m.

The programme is being established at a level that is in excess of the 2015/16 total available funding (including the 10% local contribution) of £37.900m. Experience shows that effective management of the programme requires a degree of re-profiling and re-phasing of planned works in order to keep within prescribed funding levels.



# North East Combined Authority

## Transport North East Committee

Table 2: Indicative Metro ARP Capital Programme 2015/16

Capital Scheme	Indicative Programme 2015/16 £
Civils	12,071,262
Permanent Way	8,108,939
Overhead Line	1,928,915
Stations	3,378,873
Communications	3,836,006
Signalling	4,404,870
Level Crossings	18,550
Plant	1,058
Mechanical and Electrical	1,246,450
Metro Cars	1,380,941
Capital Maintenance	1,786,499
Miscellaneous	2,756,343
PM Costs	2,301,000
<b>Total ARP Programme Funding</b>	<b>43,219,705</b>
<b>Major Projects – Sunderland Station</b>	<b>3,500,000</b>

### 3.3 Tyne Tunnels Capital Programme

#### 3.3.1 New Tyne Crossing - £0.600m

There are a small number of pieces of work still underway on the New Tyne Crossing project which are included in the project budget requirement for 2015/16.

The main outstanding item of spend included within the programme is the contribution to the Hexham Fish Pass works agreed with Northumberland County Council. This was a requirement under the environmental obligations of the approval for the project.

There remain a number of outstanding Part 1 Land Compensation Claims. These relate to properties where the owners feel the value of the property has been detrimentally affected by the project. Budget provision is included for anticipated claims to be settled during 2015/16.

There is some work ongoing in relation to land transfers with North and South Tyneside Councils and other organisations. Professional fees and costs associated with this work and work on variations to the Project Agreement are also included within the 2015/16 budget.

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### 3.3.2 Tyne Pedestrian and Cycle Tunnels - £2.500m

2015/16 will be the final year of this project, as the refurbishment works and installation of the new inclined lifts are due to be completed and the tunnels re-opened to the public.

A full review of the project and programming is currently underway by the contractors and the project team. The results of this review and any impact on the budget and programme will be reported in detail to the next meeting of the Tyne & Wear Sub Committee. The costs of this scheme will be funded from the Tyne Tunnels reserves.

### 3.4 **Local Transport Plan Integrated Transport Block**

3.4.1 Core Local Transport Plan (LTP) funding is made available by the Department for Transport (DfT). Changes have been made to the funding formula for the Integrated Transport block for the 2015/16 to 2020/21 period (with a “break point” after three years at 2017/18, where the formula will be recalculated across the authorities using updated data)

The grant has been awarded by DfT to NECA in three blocks comprising Durham, Northumberland and Tyne and Wear.

Total confirmed allocations for the NECA area are as follows:

*Table 3: LTP IT Block Allocations 2015/16-2017/18*

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Durham	2.789	2.789	2.789
Northumberland	1.695	1.695	1.695
Tyne & Wear	9.465	9.465	9.465
<b>Total</b>	<b>13.949</b>	<b>13.949</b>	<b>13.949</b>

### 3.4.2 Tyne & Wear LTP IT Block Distribution

The overall level of the Integrated Transport block award from DfT has been reduced significantly as a result of a cut in the total amount available nationally in order to partly fund the increased allocations for the Growth Deal and a change to the distribution formula. The 2015/16 allocation for Tyne and Wear is £9.465m, compared with £17.426m in 2014/15.

The Tyne and Wear allocation was previously distributed across the Districts and Nexus according to a locally agreed formula. The formula used several data sources that have been superseded by more recent data sets. The

# North East Combined Authority

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proposal is that the Tyne and Wear grant is distributed using the previous formula updated for current data sets. Options for the distribution between the Tyne and Wear Districts and Nexus are currently being discussed by officers, with a recommendation to be updated at the meeting on 4 December.

It is recommended that allocations be agreed for an initial three year period, after which new data will be used to refresh the calculation, in line with the “break point” after which DfT will re-examine the overall grant award. Such three year allocations will also allow districts certainty of capital funding for the planning of their capital programmes.

### 3.5 Local Growth Deal Capital Schemes

3.5.1 The North East Growth Deal announced in July included funding for a number of transport schemes, including the devolution of Local Major Schemes funding previously agreed.

3.5.2 The following schemes are proposed for a 2015/16 start:

#### A1 Local Junctions Improvement Package

A1 Corridor Scotswood Bridgehead Improvements – Improvements will ensure access over this crucial river crossing bridge for all modes to the employment opportunities on both sides of the river Tyne. This scheme will support the development of Metro Green in Gateshead (850 new homes and 15000sqm of office accommodation) and the Scotswood Masterplan site (1300 new homes). It will also benefit from being upgraded to support traffic from housing developments in the West of Newcastle, including Callerton (approx. 3000 homes); Dinnington (approx. 250 homes); Newcastle Great Park (up to 1200 homes) and Newcastle International Airport (50ha development site).

A1056/A189 Weetslade Roundabout and A1/A19 Link – Improvements to flows in the A188/A189 corridor and linkages to future employment development at Weetslade and existing employment sites in Killingworth. Facilitates Indigo Park, an 82 acre strategic employment site with the potential for 1000 new jobs.

#### Central Gateway Regeneration Initiative

Newcastle Central Station to Stephenson Quarter – Direct link from Newcastle Central Station to the Stephenson Quarter regeneration site. This proposal addresses a major physical barrier that currently reduces accessibility from the main rail station in the North East LEP area to a major regeneration site. The scheme is designed to accelerate development in Newcastle’s historic Stephenson Quarter. The Stephenson Quarter is a

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development that will create 2,431 gross additional jobs in the local economy, resulting in a net GVA contribution per annum of £97.3m.

Central Metro Station – Central Metro station is based in the centre of Newcastle and is a key transport interchange between Metro and heavy rail as well as providing connections to local bus services for the region. This scheme proposes the complete refurbishment of the station concourse and platforms in a style in keeping with the recently refurbished Haymarket Metro station.

### Haddricks Mill Strategic Junction Improvement

Northern Access Corridor (Phase 2) Osborne Road to Haddricks Mill – The Haddricks Mill junction is located approximately 2km to the north of Newcastle City Centre close to the Newcastle/North Tyneside district boundary. The junction is a major pinchpoint on the boundary of several major employment sites, including the large employment site at Benton Park View (home of HMRC and DWP), the Freeman Hospital and Quorum Business Park. It is proposed to remove the existing mini roundabout junctions and provide a roundabout with a larger circulatory. This will be signalised and will incorporate the full signalisation of secondary junctions.

### A19 Local Junctions Improvement Package

A19 Lindisfarne Roundabout - South Tyneside Council are intending to undertake a carriageway improvement scheme that will improve traffic movements at Lindisfarne Roundabout thus providing improved connectivity (economic growth opportunities) to the Port of Tyne and South Shields town centre. South Tyneside Council will also deliver localised improvements to the A1300/A194 roundabout, as well as improving access to the Strategic Highway Network.

A191 Junctions Coach Lane and Tyne View Park - Improved access to Tyne View Park employment site and improved flows in A191 corridor. The Tyne View Park junction currently operates at 124% of capacity in the AM peak and 121% in the PM peak. The planned improvements to flows will have benefits for the wider A19 corridor.

A19 access improvements Silverlink North - Facilitates economic development in the A19 corridor including the occupation of the remaining units at Cobalt Business Park (former Enterprise Zone site), a regionally significant location for skilled employment. It will address capacity issues in the area (the roundabout of A191 and The Silverlink North currently operates at 94% of capacity in the AM peak): significant additional traffic is expected from committed development as remaining units on the business park are occupied.

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### Local Sustainable Transport Fund Capital Interventions

LA7 LSTF 2015/16 Capital Package – Comprehensive upgrade to Durham and Tyne and Wear Urban Traffic Management and Control systems, with linked functionality in order to provide improved journey time reliability for public transport and to reduce instances of congestion. ‘Gateway Improvements’ to four major heavy rail station and improved linkages between Newcastle International Airport and the Tyne and Wear Metro, Strategic Cycle package linking to key public transport gateways.

- 3.5.3 The revised programming for 2015/16 and 2016/17 is currently with DfT for review, so the split of these figures is not yet confirmed.

Appendix 2 shows details of the schemes planned for a 2015/16 start.

### 3.6 Capital Programme Financing

The proposed financing of the 2015/16 programme is summarised in the table below. This shows that the majority of the programme (around 86%) is to be funded from external grant.

*Table 4: Proposed Financing of Capital Programme*

<b>Financing</b>	<b>2015/16 Total (£m)</b>
Grants from Central Government	78.198
Reserves	7.750
Overprogramming*	5.331
<b>Total</b>	<b>91.279</b>

A level of overprogramming is included within the Metro ARP, to ensure full delivery of the required level of spend as set out in the agreement with DfT.

## 4 Next Steps

- 4.1 The capital programme for 2015/16, including non-transport elements, will be further refined during December and reported to the North East Leaders Board meeting on 20 January 2015 for agreement.

- 4.2 Progress against the 2015/16 capital programme will be reported regularly throughout the year and monitored carefully by officers at the various delivery bodies.

# North East Combined Authority

## Transport North East Committee

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

- 5.1 The capital programme and proposed financing set out above will enable the North East Combined Authority to make a positive impact on its objectives, particularly in relation to Transport connectivity.

### **6. Finance and Other Resources**

- 6.1 The finance implications are set out in detail in the body of the report.

### **7 Legal**

- 7.1 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.

### **8 Other Considerations**

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

This report forms part of the consultation period for the 2015/16 budget and capital programme, which has included reports to the Leaders Board, Governance Committee, Overview and Scrutiny Committee and the North East Chamber of Commerce.

#### **8.2 Human Rights**

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

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

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

#### **8.4 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.

# North East Combined Authority

## Transport North East Committee

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### 8.5 Crime and Disorder

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

### 8.6 Environment and Sustainability

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

## 9 Background Documents

9.1 Budget report to NELB 21 October 2014.

## 10 Links to Plans in the Policy Framework

10.1 This report has no direct link to plans in the Policy Framework.

## 11 Appendices

11.1 Appendix 1 – Indicative Metro ARP Schemes 2015/16

Appendix 2 – Local Growth Deal Transport Schemes starting in 2015/16

## 12 Contact Officers

12.1 Eleanor Goodman, Senior Accountant, [eleanor.goodman@newcastle.gov.uk](mailto:eleanor.goodman@newcastle.gov.uk),  
0191 277 7518

## 13 Sign off

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

# North East Combined Authority

## Transport North East Committee

### Appendix 1 – Metro Capital Programme 2015/16

Project	Capital Scheme	Indicative Programme 2015/16 £
	<b>Civils</b>	
BC201	Earthworks - North Shields to Howdon	22,847
BC204	Earthworks - South Gosforth to Jesmond	1,826,211
BC971	Earthworks - TYN-NPK & NPK-SGF	627,530
BC209	Bridges - TYN to MWL (1157 1156 1168 1171) Hud St. + Wvile Rd	30,897
BC211	Bridges - Hadrian Road to Walkergate (1197 1198 1200)	725
BC212	Bridges - Wallsend to Walkergate (1201 1203 1204 1206)	549,774
BC213	Retaining Walls	30,000
BC214	Bridges - Monkseaton, Cullercoats (1124 1137 1144) Marmion Tce only	32,410
BC215	Bridges - Benton (1114 1115B)	336,500
BC216	Bridges - Gateshead (1059 1062)	585,934
BC217	Bridges - Bede, Shiremoor (1024 1024A)	454,925
BC972	Bridges GHD-SSS (Scope)	2,990,000
BC488	Felling Flooding Remedial Works	51,040
BC283	Bridges PCM to SGF	1,651,705
BC400	Bridges BYK-MAN	507,766
BC407	Asbestos revisited works- Central area tunnels	643,758
BC634	DC power cable ducting	194,541
BC666	Gosforth Depot - Roof & Gutter repairs	16,000
BC974	Drainage - TYN -NPK	1,000,392
BC975	Drainage for Plain Line	210,000
BC227	Duct Route - South Gosforth to Airport	451
BC229	Duct Route - Gateshead Stadium to South Shields	138,598
BC230	Duct Route - South Gosforth to Tynemouth	110,811
BC290	Ground Investigation - Rest of System	53,655
BC811	Benton Station Footbridge	4,790
	<b>Total Civils</b>	<b>12,071,261</b>
	<b>Permanent Way</b>	
BC232	Plain Line - South Gosforth to Jesmond	111,762
BC233	Plain Line - Jesmond to Gateshead Stadium	1,281,111
BC976	Plain line- TYN-NPK	2,667,128
BC978	Plain Line NPK-SGF	77,283
BC410	Plain line Gateshead Stadium to South Shields	50,000



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BC412	Plain line Manors to St James	50,000
BC236	Switches & Crossings - South Gosforth	30,370
BC237	Switches & Crossings - Benton	38,967
BC238	Switches & Crossings - St James	442,461
BC967	Switches & Crossings- Regent Centre	1,859,859
BC979	Switches & Crossings (TBC)	1,500,000
	<b>Total Permanent Way</b>	<b>8,108,939</b>
	<b>Overhead Line</b>	
BC240	OLE - System Development	1,928,915
	<b>Total Overhead Line</b>	<b>1,928,915</b>
	<b>Stations</b>	
BC242	Station - North Shields	4,277
BC243	Station - Meadow Well, Percy Main and Howdon	2,147
BC244	Station - Hadrian Road and Wallsend	1,379
BC245	Station - Walkergate and Chillingham Road	79,224
BC246	Station - South Gosforth	-9,496
BC247	Station - Ilford Road	865
BC981	Interchange station package SSS	197,385
BC982	Halt Station Package e.g. FEL, GST	517,306
BC983	Station- Heworth Interchange- Construction	1,691,366
BC988	Halt Station Package E.G. WMN, CUL, MSN (design)	300,000
BC989	City Station- Manors - (design)	250,000
BC990	Interchange Station - GHD - (Design)	300,000
BC530	Kingston Park	7,746
BC100	Simonside	17,452
BC721	Pelaw	19,222
	<b>Total Stations</b>	<b>3,378,874</b>
	<b>Communications</b>	
BC250	Fibre Cable Replacement - Tynemouth to Manors	23,713
BC252	Fibre Cable Replacement - South Gosforth to Airport	85,704
BC253	Fibre Cable Replacement - Jesmond to Gateshead Stadium and Manors to St. James (tunnels)	45,497
BC254	Fibre Cable Replacement - Gateshead Stadium to South Shields	40,981
BC256	Radio	2,928,450
BC257	Telephony	73
BC259	IP Network	310,025
BC840	CCTV / PA Access	94,307
BC956	PA	307,255

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	<b>Total Communications</b>	<b>3,836,006</b>
	<b>Signalling</b>	
BC260	Signalling - Bankfoot Interlocking Area	6,427
BC262	Signalling - Benton Interlocking Area	27,155
BC264	Signalling - North Shields Interlocking Area	66,124
BC267	Signalling - Manors Interlocking Area	31,209
BC272	Signalling - Depot Interlocking Area	207,216
BC273	Signalling - PTI	3,890,635
BC274	Future Signalling System- Development	125,000
BC970	Signalling- Replacement point motors (critical locations)	51,104
	<b>Total Signalling</b>	<b>4,404,870</b>
	<b>Level Crossings</b>	
BC277	Level Crossings - Highway works - Howdon, Fawdon, Kingston Park, Bank Foot, Callerton Parkway	18,550
	<b>Total Level Crossings</b>	<b>18,550</b>
	<b>Plant</b>	
BC280	Tamper	1,058
	<b>Total Plant</b>	<b>1,058</b>
	<b>Mechanical and Electrical</b>	
BC281	Escalator - Central	1,898
BC282	Escalator - Monument	1,643
BC992	Escalators - Heworth	78,569
BC993	Escalators - Gateshead 1-2 (previously 1-3)	37,983
BC995	Escalator - Gateshead 3-6 (previously 4-6)	1,472
BC940	Escalator- Four Lane Ends	744,488
BC973	Lift - St. James	1,018
BC996	Lift- Regent Centre	2,157
BC997	DC Feeder Cable	220,191
BC805	Otn-Ups Support Power Supply	157,030
	<b>Total Mechanical and Electrical</b>	<b>1,246,450</b>
	<b>Metro Cars</b>	
BC288	3/4 Life Refurbishment	1,280,941
BC527	Metrocar further life extension study	100,000
	<b>Total Metro Cars</b>	<b>1,380,941</b>

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	<b>Capital Maintenance</b>	
BC550	Rail Grinding	100,000
BC587	Vehicle Replacement Programme	135,000
BC617	Lifts Refurbishment/Major Items	55,194
BC703	Plain Line Renewal	400,001
BC929	OHL Capital Maintenance	169,810
BC954	Capital Maintenance Concession	875,369
BC532	Stations Refurbishment - Escalator Imps/Major Items	51,125
	<b>Total Capital Maintenance</b>	<b>1,786,498</b>
	<b>Miscellaneous</b>	
BC947	Nexus Document Control System	5,825
BC960	Asset Knowledge	50,518
BC296	Metro Service	500,000
	Bus costs	1,400,000
	Dayworks	600,000
	Blockade Resources	200,000
	<b>Total Miscellaneous</b>	<b>2,756,343</b>
	<b>PM Costs</b>	
	PM Costs	2,301,000
	<b>Total PM Costs</b>	<b>2,301,000</b>
	<b>Total ARP Programme Funding</b>	<b>43,219,705</b>

<b>Funding</b>	
DfT Grant (maximum available)	34,444,444
10% Nexus Contribution	3,444,445
Overprogramming	5,330,816
<b>Total ARP Funding</b>	<b>43,219,705</b>

<b>Minimum/Maximum Spend (assuming no b/f or c/f)</b>	
Minimum Spend	31,000,000
Maximum Spend	37,888,889

<b>ARP Target Spend</b>	34,444,444
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<b>Other</b>	
Sunderland Station (Nexus Contribution)	3,500,000

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### Appendix 2 – Local Growth Deal Transport Schemes

Promoter	Description	Expenditure profile (NECA SEP contribution only) (£m)		
		2015/16	2016/17	2017/18
Durham	Horden (Peterlee) Station	0.67	2.67	
North Tyneside Council	A1058 Coast Road major scheme (Billy Mill – Norham Road Improvements)	4.84	1.00	
Sunderland City Council	Low Carbon Zone Infrastructure	2.75	3.20	
South Tyneside Council/Nexus	South Shields Transport Hub: Consolidation of Metro and bus terminals in the heart of South Shields.	2.07	4.83	
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 2), Cowgate to Osborne Road.	3.50	0.59	
Gateshead Council	A167 Park and Ride corridor	1.00	3.99	
Newcastle City Council	A1 Corridor Scotswood Bridgehead Improvements	1.70	2.00	
North Tyneside Council	A1056-A189 Weetslade roundabout improvements and A1-A19 link (A1056)	0.68	1.40	2.24
Newcastle City Council	Newcastle Central Station to Stephenson Quarter	1.00	3.00	2.00
Nexus	Central Metro Station Refurbishment	2.51		
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 3), Osborne Road to Haddricks Mill.	0.50	3.93	
South Tyneside Council	A194/A185 (The Arches) Junction	0.50	5.33	
South Tyneside Council	A19/A194/A1300 Lindisfarne Roundabout	2.93	0.50	
North Tyneside Council	A191 junctions including coach lane and Tyne View Park	0.80	0.70	
North Tyneside Council	A19 employment corridor access improvements e.g. the roundabout of A191 and The Silverlink North	0.70	2.20	1.80
LA7 LSTF 2015/16 Capital Package	UTMC, 'Gateway Improvements', Cycle package to complement revenue bids for A1/A19 corridor, Northumberland and Durham	4.00	3.52	
		<b>30.15</b>	<b>38.86</b>	<b>6.04</b>

## North East Combined Authority

### Governance Committee

---

**DATE:** 9 December 2014  
**SUBJECT:** Annual Audit Letter 2013/14  
**REPORT OF:** Chief Finance Officer

#### **EXECUTIVE SUMMARY**

This report presents the Annual Audit Letter issued by the external auditors, Deloitte, in October 2014. This completes the reporting in relation to the final set of Tyne & Wear ITA Accounts for 2013/14.

#### **RECOMMENDATIONS**

Governance Committee is recommended to:

1. Receive the Annual Audit Letter on the 2013/14 Accounts for information.

# North East Combined Authority

## Governance Committee

---

### **1 Background Information**

- 1.1 At the September meeting of Governance Committee, the financial statements were presented along with the report of the Independent External Auditor, Deloitte. The financial statements were subsequently signed off by the North East Leadership Board on 16 September, subject to the completion of the audit of some minor outstanding items and completion of the Whole of Government Accounts audit. The External Auditor issued an unqualified audit opinion on the Statement of Accounts, an unqualified Value for Money conclusion and an unqualified opinion on the Whole of Government Accounts return by the statutory deadline.

### **2 Proposals**

#### **2.1.1 Independent Auditors' Annual Audit Letter 2013/14**

The Annual Audit Letter is attached as Appendix 1. As set out above, it confirms the issue of an unqualified opinion on the Statement of Accounts, an unqualified Value for Money conclusion and an unqualified opinion on the Whole of Government Accounts return by the statutory deadline.

- 2.1.2 In addition to the opinions provided above, the auditors also considered the financial standing of the Authority, based on current and on-going expenditure demands, expected income levels and cash position. Although acknowledging the Authority continues to face severe financial pressures over the next few years as a result of the extent of the reduction in the funding settlement to local authorities from Government, and changes in Government policy, the external auditors have no specific concerns about the Authority's response to these challenges or its overall financial standing.

### **3 Next Steps**

- 3.1 The Annual Audit Letter for 2013/14 is published on the NECA website and also the Audit Commission's website.

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

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

# North East Combined Authority

## Governance Committee

---

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

- 5.1 The views of the Chief Finance Officer are reflected in the body of the report. It is pleasing to see a positive audit letter for the final Annual Report and Accounts of TWITA.

### **6 Legal**

- 6.1 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. The NECA Constitution sets out the responsibilities of Governance Committee to review key information relating to the NECA's Statement of Accounts.

### **7 Other Considerations**

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

The accounts to which this letter relates were subject to a period of public inspection from 14 July to 10 August 2014.

#### **7.2 Human Rights**

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

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

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

#### **7.4 Risk Management**

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

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

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

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

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

### **8 Background Documents**

- 8.1 Code of Practice on Local Authority Accounting 2013/14
- 8.2 Accounts and Audit (England) Regulations 2011
- 8.3 Tyne & Wear Integrated Transport Authority Annual Report and Accounts 2013/14

# North East Combined Authority

## Governance Committee

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### 9 Links to Plans in the Policy Framework

9.1 There are no links to plans in the policy framework

### 10 Appendices

10.1 The Annual Audit Letter from Deloitte is attached as Appendix 1.

### 11 Contact Officers

11.1 Eleanor Goodman, Senior Accountant, [eleanor.goodman@newcastle.gov.uk](mailto:eleanor.goodman@newcastle.gov.uk),  
Tel: 0191 277 7518

### 12 Sign off

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



Tyne & Wear Integrated Transport Authority  
Annual Audit Letter on the 2013/14 Audit  
October 2014

the  
Distinctive  
audit

Governance Committee  
North East Combined Authority  
Civic Centre  
Newcastle upon Tyne  
NE1 8PD

31 October 2014

Dear Sirs

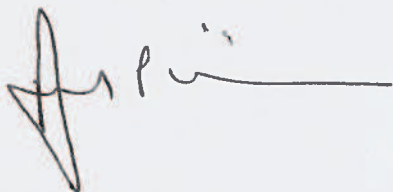
We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit of the financial statements of Tyne & Wear Integrated Transport Authority ("the Authority") for the year ended 31 March 2014.

Although this letter is addressed to the members of the Authority, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Authority's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

This letter has been discussed and agreed with the Senior Accountant. A copy of the letter will be provided to all Members.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Authority's own agenda. We recognise the value of your co-operation and support.



**David Wilkinson FCA CF (Engagement Lead)**  
**For and on behalf of Deloitte LLP**  
Appointed auditor  
Newcastle, United Kingdom

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## Key messages

### Statement of Accounts

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**Unqualified opinion issued on 30 September 2014**

In 2013/14 the Authority was required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, changes within the Code resulted in a number of minor changes to accounting policies and disclosures.

The Statement of Accounts was prepared, audited and closed in accordance with the agreed timetable. The Authority achieved a good standard of financial reporting.

We issued an unqualified audit opinion on the Statement of Accounts on 30 September 2014.

### Value for money conclusion

---

**Unqualified opinion issued on 30 September 2014**

We issued an unqualified Value for Money conclusion on 30 September 2014.

### Annual Governance Statement

---

**All relevant governance matters were adequately and appropriately disclosed**

We considered the contents of the Annual Governance Statement and confirmed that it adequately and appropriately disclosed all relevant governance matters arising in the year.

### Whole of Government accounts and audit certificate

---

**WGA return was submitted on 3 October 2014**

The Whole of Government Accounts return was presented for audit before the deadline set by HM Treasury. We confirmed to the National Audit Office that there were no inconsistencies between the financial statements and the WGA pack in line with the deadline of 3 October 2014.

The certificate of completion of the audit was issued on 3 October 2014.

### Financial reporting systems

---

**No significant weaknesses noted**

We did not identify any significant weaknesses in the financial reporting systems.

# Responsibilities and scope

## Responsibilities of the Authority and Auditor

---

The Authority is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 based on International Financial Reporting Standards (“IFRS”) and other relevant legislation.

We are appointed as the Authority’s independent external auditor by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Authority’s appointed external 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 have responsibilities in two main areas:

- the Authority’s Statement of Accounts; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the Value for Money (“VFM”) conclusion).

## The scope of our work

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We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board (“APB”).

The audit opinion on the Statement of Accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 based on IFRS and other relevant legislation.

We conducted our work on the VFM conclusion in line with guidance received from the Audit Commission in respect of other local government bodies for the financial year ended 31 March 2014.

# The audit of the accounts

## Key issues arising from the audit of the accounts

### Statement of Accounts

---

**Unqualified opinion issued on 30 September 2014**

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters arising from the audit. A detailed report was discussed with the members of the Governance Committee on 12 September 2014 and the North East Combined Authority Leadership Board on 16 September 2014 and there were no significant issues to report.

We issued an unqualified opinion on the Authority's 2013/14 Statement of Accounts on 30 September 2014, in advance of the deadline set for local government bodies of 30 September 2014.

Our opinion confirmed that the accounts presented a true and fair view of the financial position of the Authority and its income and expenditure for the year.

### Key issues from work performed on the Statement of Accounts

---

**There were no material misstatements noted that would impact net assets or the surplus on the provision of services**

We received a set of draft accounts in advance of the agreed deadline, which were supported by good quality working papers.

The finance staff were helpful throughout the process and responded swiftly to all queries. This performance reflects well on the professionalism of the finance staff and their commitment to maintaining high-level controls over financial systems.

There were no material misstatements noted that would impact net assets or the surplus on the provision of services.

There were a small number of immaterial disclosure deficiencies noted which were corrected by management prior to our opinion being issued.

### Annual Governance Statement

---

**The Statement includes all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements**

As appointed auditor, we review the Annual Governance Statement ("AGS") and comment on any inconsistencies noted between the AGS and our audit work, other work relating to the Code, and our understanding of the Authority's governance arrangements.

We concluded that the AGS included all appropriate disclosures and was consistent with our understanding of the Authority's governance arrangements and internal controls noted during our audit work.

## The audit of the accounts (continued)

### Key issues arising from the audit of the accounts

#### Whole of Government Accounts return

---

**WGA return was submitted on 3 October 2014**

The Whole of Government Accounts return was presented for audit before the deadline set by HM Treasury. We confirmed to the National Audit Office that there were no inconsistencies between the financial statements and the WGA pack in line with the deadline of 3 October 2014.

#### Audit Certificate

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**Issued on 3 October 2014**

When our audit is complete we are required to certify the closure of the audit. The certificate was issued on 3 October 2014.

#### Local challenge work

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**No local challenge work was undertaken in the year**

We undertook no local challenge work in the 2013/14 financial year.

# Value for Money

## Background and approach

---

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).

In 2013/14 as set out in the Work Programme and Scales of Fees 2013/14: Local Government, the approach to local VFM audit work at specified bodies, including the Authority, is based on criteria specified by the Commission. For 2013/14, auditors of these bodies continued 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.

We did not identify any local risk-based work, nor was there any additional work mandated by the Commission.

## The VFM conclusion

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Having performed our work in line with guidance received from the Audit Commission we issued an unqualified VFM conclusion for the 2013/14 financial year. This means that we are satisfied that, in the areas reviewed, the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the year.

## Financial resilience

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We considered the financial standing of the Authority as at 31 March 2014. We have 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.



## Other matters

### Reports issued

Reports issued during the course of the 2013/14 audit were:

- Fee letter – April 2013;
- Audit plan – March 2014;
- Report to the Authority on our audit findings – September 2014; and
- Annual Audit Letter – October 2014.

### Analysis of audit fees

	2013/14 £	2012/13 £
Total fees for the audit of the annual accounts, WGA and VFM conclusion (excluding VAT)	19,559	19,559
Fees payable for local challenge work	-	-
Fees payable for grant certification	-	-
<b>Total</b>	<b>19,559</b>	<b>19,559</b>

We have not performed any non-audit services in either the current or prior year. In addition there have been no additional VFM projects undertaken in the current or prior year.

### Grants

We have undertaken no work during the year on grant claims made by the Authority.

### Independence and objectivity

In our professional judgement, our policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

## Responsibility Statement

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 this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the Audit Commission.

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

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area

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## North East Combined Authority

### Governance Committee

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**DATE:** 9 December 2014

**SUBJECT:** Assurance Framework for Annual Governance Statement  
2014/15

**REPORT OF:** Audit, Risk and Insurance Service Manager (Newcastle City  
Council)

#### **EXECUTIVE SUMMARY**

The purpose of this report is to introduce a draft framework for the production of the 2014/15 Annual Governance Statement and consider the sources of assurance required to support it.

#### **RECOMMENDATION**

It is recommended that the Committee agree the framework and process to develop the Annual Governance Statement.

# North East Combined Authority

## Governance Committee

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### 1 Background Information

- 1.1 The Authority has a statutory duty under the Accounts and Audit Regulations 2011 to do the following on an annual basis:
- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
  - Identify significant weaknesses and the actions that have taken place (or will take place) to address them;
  - Report these to the public in the Annual Governance Statement which is part of the Accounts.
- 1.2 To produce the Annual Governance Statement an assurance framework needs to be developed to assess the governance and internal control environment operating during 2014/15.

### 2 Proposals

- 2.1 The Leadership Board will have ultimate responsibility for the governance framework, internal control environment and the effectiveness of those arrangements, although the Governance Committee will fulfil an ongoing review, challenge and assurance role in relation to governance and internal control issues.
- 2.2 The Annual Governance Statement will include narrative under the following headings covering governance arrangements in place during 2014/15:
- Scope of Responsibility
  - The Purpose of the Governance Framework
  - The Governance Framework
  - Annual Review of Effectiveness of Governance Framework
  - Conclusion
- 2.3 Appendix 1 shows the assurance framework diagrammatically and the flow of assurance from the business of the Combined Authority to the ultimate production of the Annual Governance Statement.
- 2.4 The proposed assurance framework for the Combined Authority is set out below. This table details the elements making up the framework and examples of how that assurance will be obtained. This process complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice and will be subject to review by the Authority's external auditors at the time of their audit of the final accounts for 2014/15.

# North East Combined Authority

## Governance Committee

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<b>Element of Assurance</b>	<b>Example of source of assurance</b>
Governance Arrangements	The Combined Authority's Constitution etc.
Statutory Officers - Monitoring Officer, Chief Finance Officer (Section 151 Officer), and Senior Information Risk Owner (SIRO)	Completion of assurance statements from senior officers responsible for delivery of the Combined Authority's role.
Members	Views of the members of the Governance Committee
Internal Audit Activity	Outcomes reported during the year through the Head of Internal Audit's annual opinion
Risk Management	Outcomes from the Risk Review
Performance Management	Outcomes reported during 2014/15
External auditor and other external inspectorates	Reports received during the year
Key Partnerships	Completion of assurance statements from each of the constituent authorities and other key partners as appropriate

- 2.5 The Governance Committee will use the assurance framework to review the governance and internal control environment operating during 2014/15 and to challenge assurance being provided on the effective operation of control systems before approving it for inclusion with the final accounts.
- 2.6 The final Annual Governance Statement will be signed by the Leader of the Combined Authority and the Head of Paid Service.
- 2.7 The Governance Committee will receive reports throughout 2015/16 to allow them to monitor the implementation of any actions to rectify weaknesses identified in the Annual Governance Statement.

### **3 Next Steps**

- 3.1 Agree an assurance framework including the sources of assurance which should be obtained and receive a draft Annual Governance Statement and supporting evidence at a future committee.

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

- 4.1 No direct impact on objectives

# North East Combined Authority

## Governance Committee

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

- 5.1 This work will be carried out by Newcastle City Council under the SLA for 2014/15

### **6 Legal**

- 6.1 No legal implications.

### **7 Other Considerations**

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

No external consultation or community engagement required.

#### **7.2 Human Rights**

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**

Risk management will be considered as part of the development of the Annual Governance Statement but there are no specific risk implications from the 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 There are no background documents

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

- 9.1 No direct link to the Policy Framework



# North East Combined Authority

## Governance Committee

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### 10 Appendices

- 10.1 Appendix 1 - Assurance framework for the production of the Annual Governance Statement

### 11 Contact Officers

- 11.1 Philip Slater, Audit, Risk and Insurance Service Manager  
E mail: [philip.slater@newcastle.gov.uk](mailto:philip.slater@newcastle.gov.uk)  
Tel: 0191 2116511

### 12 Sign off

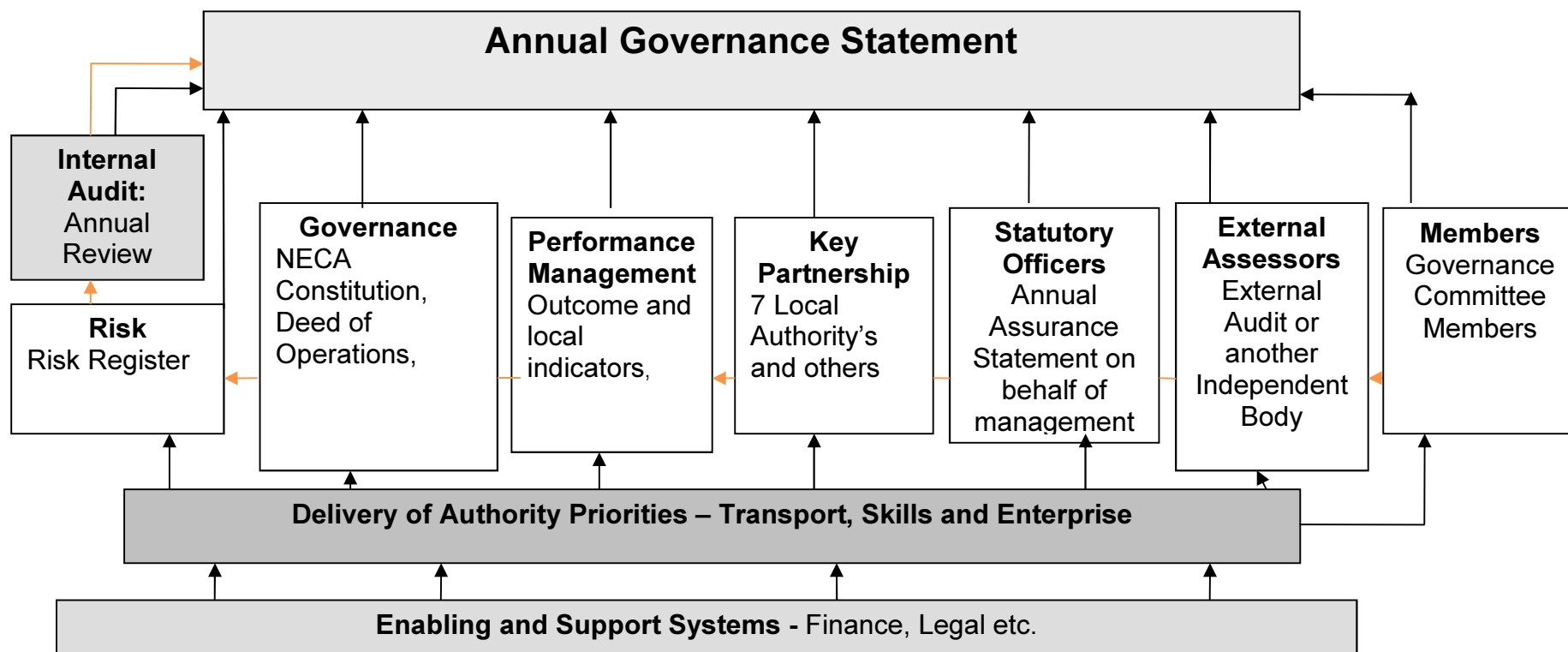
- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

# North East Combined Authority

## Governance Committee

### Assurance framework for the production of the Annual Governance Statement - Appendix 1

Page 96



## North East Combined Authority

### Governance Committee

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**DATE:** 9 December 2014

**SUBJECT:** Strategic Risk Approach and Next Steps

**REPORT OF:** Audit Risk and Insurance Service Manager (Newcastle City Council)

#### **EXECUTIVE SUMMARY**

The purpose of this report is to introduce the Combined Authorities Risk Management Policy and Strategy and advise the Committee of the approach to strategic risk management going forward.

The Risk Management Policy and Strategy has been drafted by Newcastle City Council on behalf of the Governance Committee. The Committee are therefore asked to agree the documents, including the approach to identify, report and escalate risks to the Governance Committee and Leadership Board. (Policy and Strategy have been included within Appendix 1)

As part of the Economic Directors meetings, a risk identification workshop took place on 28 November 2014. Economic Directors (or deputies) as well as statutory officers and thematic leads attended the workshop to determine the biggest threats (risks) and opportunities facing the delivery of the Combined Authorities aims and ambitions. From this a strategic risk and opportunity register for the Combined Authority can be produced.

#### **RECOMMENDATIONS**

Governance Committee are asked to:

- Agree the Risk Management Policy and Strategy (Appendix 1)
- Agree to receive a summary of the strategic risks and opportunities in February 2015

# North East Combined Authority

## Governance Committee

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### 1 Background Information

#### Risk Management Policy and Strategy

- 1.1 Newcastle City Council will support the Governance Committee to effectively discharge their risk duties, by providing the resource to work across the local authority boundaries, to facilitate and coordinate the identification, reporting and escalation of risks, which may impact upon the decision making of the Leadership Board and ultimately the successful delivery of the Strategic Economic Plan. This approach has been documented in the Risk Management Policy and Strategy for the Combined Authority. The Committee are therefore asked to agree the Risk Management Policy and Strategy

#### Strategic Risk Management

- 1.2 A risk identification workshop was held on 28 November with the Economic Directors (or deputies), thematic leads and statutory officers, referred to within this report as the executive group. The workshop highlighted the biggest threats and opportunities to the Combined Authority's aims and ambitions.
- 1.3 At the end of the workshop the executive group identified the most significant risks and opportunities, agreed action plans (mitigation) and assigned lead officers, who will be responsible for the management and communication of the opportunities and risks. Newcastle City Council will develop a strategic risk register which will be reviewed every 6 months and reported to the Governance Committee on a regular basis.
- 1.4 Due to the timing of this report the outcome of the workshop was not known therefore a verbal update will be given and a full summary of the most significant risks and opportunities will be presented to the Committee at their February meeting.
- 1.5 Each local authority and delivery agency will continue to manage risks and opportunities within their own organisations. However, there will be continued collaboration with all stakeholders, to ensure the Governance Committee and ultimately the Leadership Board has an awareness of the most significant risks and opportunities which may influence their decision making.

### 2 Proposals

- 2.1 Following agreement of the Risk Management Policy and Strategy and the approach to risk management going forward, Newcastle City Council will, in partnership with neighbouring authorities and delivery agencies, develop a strategic risk register to record and monitor the strategic risks and opportunities which may influence the decision making of the Governance Committee and Leadership Board.

# North East Combined Authority

## Governance Committee

---

### **3 Next Steps**

- 3.1 Governance Committee to agree the Risk Management Policy and Strategy and the approach to strategic risk management going forward.
- 3.2 The outcome of the Risk Workshop will be presented to the Governance Committee and following agreement, the most significant risks will be presented to the Leadership Board to ensure they have a collective understanding of the biggest threats to the Combined Authority.

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

- 4.1 The Risk Management Policy and Strategy do not impact directly on the objectives of the Authority's policies and priorities, however the approach to strategic risk management will support delivery of the Authority's 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 for the North East Leadership Board regarding the development of the risk management policy and strategy and development of the strategic risk register.

### **6 Legal**

- 6.1 There are no legal implications

### **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 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 attached policy and strategy. The key risks will be reported to the next appropriate Governance Committee and Leadership Board for agreement.

# North East Combined Authority

## Governance Committee

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### 7.5 **Crime and Disorder**

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

### 7.6 **Environment and Sustainability**

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

## 8 **Background Documents**

8.1 There are no background documents

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

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

## 10 **Appendices**

10.1 Appendix 1 – Risk Management Policy and Strategy

## 11 **Contact Officers**

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

## 12 **Sign off**

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

## Risk and Opportunity Management Policy Statement

### Policy Statement:

The Combined Authority provides an accountable, stable and enabling platform which reinforces and strengthens the existing partnership arrangements to collectively shape the economic future of the North East through the devolution of funding and responsibilities in regards to transport, skills, inward investment and economic growth.

As a Leadership Board we will work together to identify and communicate the risks and opportunities that could impact upon the success of the Authority. Where there are risks in individual Councils, which could significantly impact upon the success of the Authority they will be communicated and shared across the Authority to ensure an appropriate coordinated response is agreed as necessary.

Our risk processes make clear our ability to tolerate risk or enhance opportunities by considering how they could enable or prevent us delivering our plans or affect our finances and our reputation. This allows us to take well managed risks in order to successfully deliver, in partnership, our Strategic Economic Plan.

To ensure accountability, integrity and transparency, risk will form an integral part of our decision making, management and improvement at all levels of Authority activities.

### Principles:

- The Combined Authority will have an effective risk management system in place which delivers outcomes and provides value for money
- Risk and Opportunity Management is an integral part of our decision making processes
- Members will ensure that risks and opportunities are identified, which underpin successful delivery of their plans and objectives, are supported by robust and measurable action plans that include specific actions and clear ownership
- Members will make decisions collectively to ensure the correct activities are identified and implemented to mitigate risks and where appropriate develop contingency plans
- Members will have agreed, clear roles and responsibilities demanding personal accountability for the management, communication, reporting and escalation of risks
- All Members will embrace and encourage a culture that is open, honest and encourages transparent risk reporting and escalation. It will support well judged decisions about risks and opportunities, enabling innovation to be handled with confidence
- We will promote an environment where effective communication, management of interdependencies and professional relationships with internal/external partners is maintained to ensure risk management achieves results

# Risk and Opportunity Management Strategy 2014/15 – 2016/17

## 1. Strategy Statement

Risk Management is defined as:

‘The planned and systematic approach used to identify, evaluate and manage the whole range of risks and opportunities facing the Authority.

The Authority’s Risk Management Strategy is to:

“Strengthen the existing partnership arrangements across the 7 neighbouring authorities and delivery agencies, responding to threats and manage significant sources of uncertainty to achieve our ambitions for a strong and sustainable economic future”.

## 2. Why do we manage Risk and Opportunities?

Risk Management is an effective way of ensuring risk exposure is kept to an acceptable level in a cost effective way and opportunities are identified and promoted.

It is a combination of attitudes, behaviours and activities which together form an environment in which risk considerations are part of business as usual.

The shared understanding and communication of risk information will lead to informed decision making, which will lead to fewer unanticipated problems and crises for the Authority.

By managing risks and opportunities effectively the Authority is in a stronger position to access more devolved powers and resources from government in the future, to improve the economic outcomes for the North East.

## 3. Roles

The Combined Authority’s Governance Committee - Has lead responsibility for the organisation’s arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance issues.

Newcastle City Council – Will support the Governance Committee and Monitoring Officer to effectively discharge their risk duties, by providing the resource to work across the Local Authority boundaries, to facilitate and coordinate the identification, reporting and escalation of risks, which may impact upon the decision making of the Leadership Board and ultimately the successful delivery of the Strategic Economic Plan.

## 4. Objectives

The Risk and Opportunity Management Strategy describes the approach to the identification and management of risks and opportunities and its objectives are to:

- Ensure risk management is clearly and consistently integrated and evidenced in the culture of the Authority
- Communicate and share risk information
- Ensure cost effective controls are in place which respond to the changing environment in which the Authority operates



- Ensure losses penalties and fraud are minimised
- Ensure opportunities are identified and managed alongside risks
- Inform policy and operational decision making by identifying potential risk and impact
- Ensure risk is managed in accordance with best practice

These objectives will be achieved by:

- Clearly defining individual accountabilities, responsibilities and reporting lines within the Authority for risk and opportunity management
- Including risk management issues when writing reports and considering decisions
- Developing a clear and consistent approach to support the communication and escalation of risks
- Leadership Board- providing leadership and support on risk and opportunity management
- Maintaining a register of strategic risks which may affect the success of the Authority
- Monitor arrangements continually and seek continuous improvement

## **5. Our Approach**

The Authority is committed to considering the risks inherent in all its activities. The scope of risks and the process for escalation shall also be clear. Each local authority will continue to manage the strategic risks and opportunities within their own organisations. There will be continued collaboration with the Local Enterprise Partnership (LEP), Delivery Agencies and the wide range of partners including further and higher education institutions, to ensure the Leadership Board has an awareness of the most significant risks to support their decision making and to ensure successful delivery of the strategic investment plans for the region.

The risk management process, which is summarised in Appendix A, enables those involved to systematically assess what may affect their ability to achieve objectives through a continuous 4 stage process of risk identification, analysis, control and monitoring. The Risk Analysis Toolkit at Appendix B will assist in the analysis of the risk to determine the risk priority.

## **6. Delivery of Risk Management**

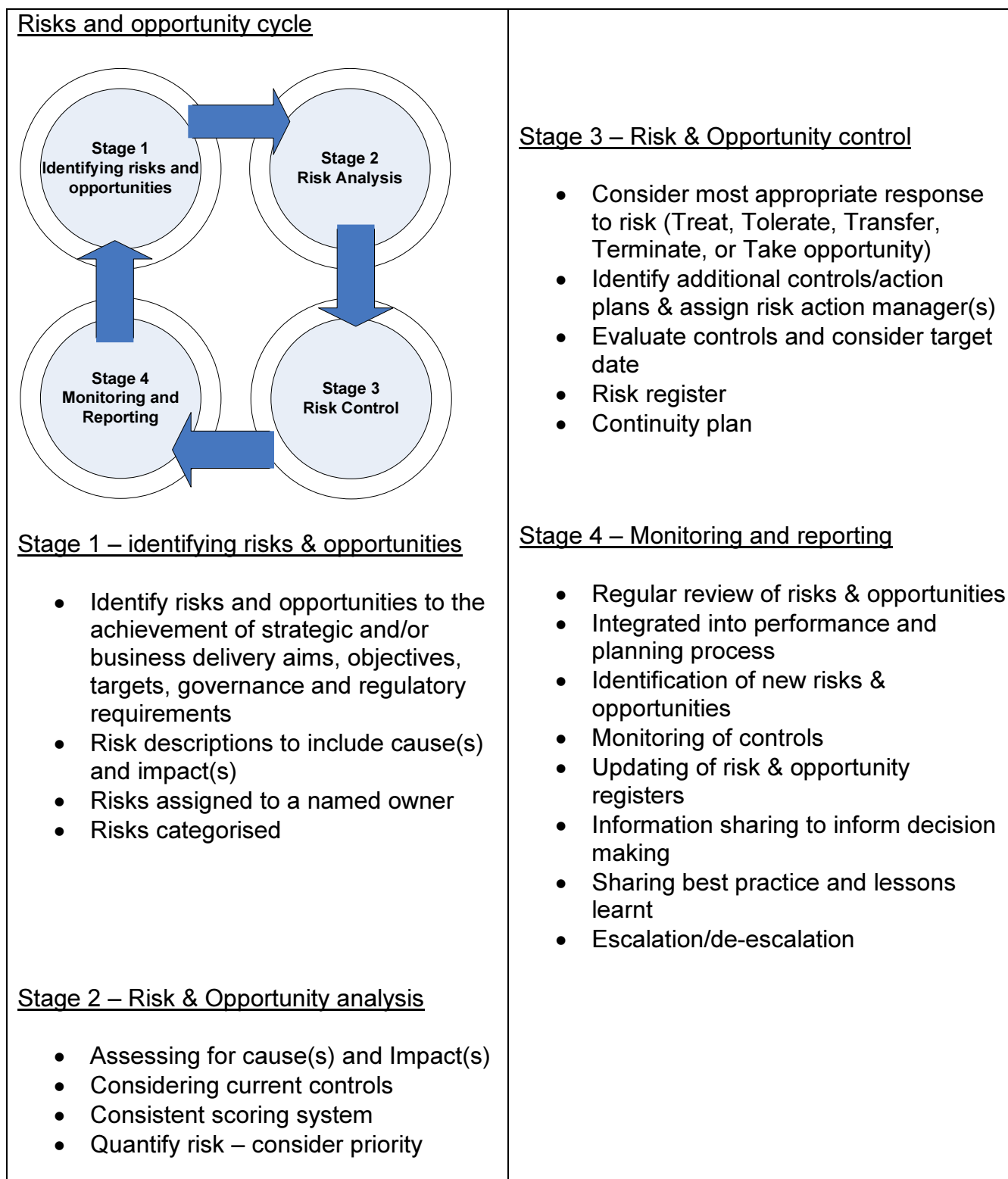
Risk Management remains the responsibility of the each Local Authority, LEP, and Delivery Agency. The most significant risks and opportunities will be communicated and/or escalated to the Leadership Board via the Governance Committee for information or decision making. (Escalation template at Appendix C)

Newcastle City Council Audit, Risk and Insurance Service Manager will report strategic risks and opportunities to the NECA Governance Committee, on a quarterly cycle alongside performance and financial information, and support other Local Authorities to escalate and report strategic risks to the Authority for acknowledgement or decision making as appropriate. (Reporting template at Appendix D).

## **7 Review of Strategy**

The Strategy will be reviewed annually by the Combined Authority.

## Risk & Opportunity Management Process at a Glance



# Strategic Risk Analysis Toolkit

Action plans must be developed for Red and Amber risks

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

Risk Escalation/Communication Template

<b>Local Authority/Delivery Agency</b>	-	
<b>Risk Description</b>	<b>RAG Score</b>	
<b>Controls in place (and working well)</b>		
•		
<b>Summary of why risk has been escalated and areas requiring attention by Leadership Team</b>		
<b>Leadership Team decisions/next steps</b>	<b>Action Owner</b>	<b>Timescale</b>

<b>Local Authority/Delivery Agency</b>					
<b>Risk/Opportunity Description</b>				<b>Overall RAG Score:</b>	
				<u>Likelihood</u>	<u>Impact:</u>
				<b>Target RAG Score</b>	
				<u>Likelihood</u>	<u>Impact</u>
High level controls:					
<ul style="list-style-type: none"> <li>•</li> </ul>					
<b><u>Financial Assessment</u></b>		<b><u>Reputational Assessment</u></b>		<b><u>Service Delivery Assessment</u></b>	
Likelihood:	Impact:	Likelihood:	Impact:	Likelihood:	Impact:
High level controls:		High level controls:		High level controls:	
<ul style="list-style-type: none"> <li>•</li> </ul>		<ul style="list-style-type: none"> <li>•</li> </ul>		<ul style="list-style-type: none"> <li>•</li> </ul>	
Key Milestones (to reduce overall risk):				Implementation date or review date:	

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## North East Combined Authority

### Governance Committee

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**DATE:** 9 December 2014

**SUBJECT:** Internal Audit Progress Report

**REPORT OF:** Audit, Risk and Insurance Service Manager (Newcastle City Council)

#### **EXECUTIVE SUMMARY**

The purpose of this report is to provide members with progress against the delivery of the 2014/15 plan and the implementation of audit recommendations.

Two audits have been completed since the last Governance Committee covering Governance and Performance Arrangements which concluded that systems give moderate assurance and the North East Local Enterprise Partnership which concluded that substantial assurance was in place. These audits are summarised in this report.

#### **RECOMMENDATIONS**

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

# North East Combined Authority

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### 1 Background Information

#### Progress with Delivery of the Plan

- 1.1 Appendix 1 shows the 2014/15 Internal Audit Plan agreed by the Governance Committee including the number of days estimated to complete each audit and the proposed Governance Committee reports will be brought to.
- 1.2 It was envisaged at the September 2014 Committee that reports relating to Risk Management and Strategic Transport in County Durham would be available for the December 2014 Committee however the transport audit is currently in progress and will now be reported to the February 2015 Committee. As regards risk management a separate piece of work has been undertaken to develop a risk process for the Combined Authority and this is considered in more depth elsewhere on this agenda in the "Strategic Risk Approach" report. Progress on the development of risk management arrangements will be covered by internal audit work in March 2015.
- 1.3 The table below details the audit work completed to date and Appendix 2 provides an executive summary of audits issued since the last committee meeting.

<b>Audit</b>	<b>Level of Assurance</b>
North East Local Enterprise Partnership	Substantial
Governance and Performance	Moderate

- 1.4 Appendix 3 includes definitions for the overall assessments and recommendation ratings used in audit reports. These definitions have been developed specifically for the Combined Authority and will be used in all reports regardless of which Council's Internal Audit Service has delivered the work.
- 1.5 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high and medium priority recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The current position as regards recommendations due for implementation is detailed below:



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Audit and Recommendation	Implementation due date	Progress update
<b>Tyne Tunnel Toll Income</b>  The NECA Bank Account / Cash Book Control Account, was not promptly reconciled and cleared to the relevant revenue account at the time of the audit. (Medium)	September 2014	Implemented

### 2 Next Steps

- 2.1 The Governance Committee will continue to receive reports detailing progress against the audit plan, outcomes from audit work and information on the implementation of recommendations throughout the year. This work will feed into the Internal Audit Annual Report and Annual Governance Statement for 2014/15.

### 3 Potential Impact on Objectives

- 3.1 No direct impact on objectives.

### 4 Finance and Other Resources

- 4.1 Internal Audit is provided principally by Newcastle City Council and an SLA has been developed to cover this as well as risk management and preparation of the Annual Governance Statement. Sunderland has developed an SLA with the North East Local Enterprise Partnership and Durham and Northumberland's internal audit work will be covered through devolved funding.

### 5 Legal

- 5.1 No legal implications.

### 6 Other Considerations

#### 6.1 Consultation/Community Engagement

No external consultation or community engagement required.

#### 6.2 Human Rights

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

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### 6.3 Equalities and Diversity

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

### 6.4 Risk Management

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

### 6.5 Crime and Disorder

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

### 6.6 Environment and Sustainability

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

## 7 Background Documents

### 7.1 Final Internal Audit Reports

## 8 Links to Plans in the Policy Framework

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

## 9 Appendices

- 9.1 Appendix 1 – Internal Audit Annual Plan 2014/15
- Appendix 2 – Audit Activity since September 2014
- Appendix 3 - Definitions

## 10 Contact Officers

- 10.1 Philip Slater, Audit, Risk and Insurance Service Manager  
E mail: [philip.slater@newcastle.gov.uk](mailto:philip.slater@newcastle.gov.uk)  
Tel: 0191 2116511

## 11 Sign off

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

# North East Combined Authority

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2014/15 Internal Audit Plan					Appendix 1
Audit	Delivered by	Audit scope and coverage	Estimated Days	Status	Date to Report to Governance Committee
Governance and Performance	Newcastle City Council	Review of the operation of governance and performance arrangements in place and being developed for the Combined Authority and provide appropriate advice to officers establishing processes for reporting and monitoring.	8	Complete	December 2014
Page 11 Financial Management	Newcastle City Council	Audit coverage will include: <ul style="list-style-type: none"> <li>The adequacy of financial arrangements for the overall Combined Authority.</li> <li>Processes in place within Newcastle City Council in relation to Tyne and Wear transport financial systems.</li> <li>The development and design of new arrangements.</li> </ul>	8	To start January 2015	TBC but after February 2015
Tyne Tunnels Contract Monitoring	Newcastle City Council	Assess the adequacy and effectiveness of arrangements for receipt of Tyne Tunnels toll income.	5	Complete	September 2014
Risk Management	Newcastle City Council	To review and assist in the development risk management arrangements for the Combined Authority. The work in March 2015 will audit progress in the development of the risk management approach.	5	To start March 2015	TBC but after February 2015

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Concessionary Travel	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	*	March 2015	TBC but after February 2015
Metro Re-Invigoration	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	*	March 2015	TBC but after February 2015
North East Local Enterprise Partnership	Sunderland City Council	Accounting arrangements, the process for allocating grants/loans to third parties, the monitoring arrangements and the quarterly claims process.	15	Complete	December 2014
Transport Network Management – Durham	Durham County Council	Review of the governance and performance arrangements in place for reporting to the Combined Authority.	10	In progress 2014	February 2015
Strategic Transport - Northumberland	Northumberland County Council	Review spend and governance particularly relating to the Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance).	10	March 2015	TBC but after February 2015
Contingency	As required	Provision to cover emerging risks, grant certification work and general advice.	5	As and when required	As required
Governance Committee Support	Newcastle City Council	<ul style="list-style-type: none"> <li>Development and monitoring delivery of the Internal Audit Annual Plan.</li> <li>Preparation of reports to and attendance at Governance Committee.</li> </ul>	4	As and when required	Not applicable

# North East Combined Authority

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		<ul style="list-style-type: none"><li>• Follow up on the implementation of recommendations made within Internal Audit reports.</li></ul>			
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\* Nexus – this work is undertaken as part of Nexus’s internal audit plan delivered by their Internal Audit Service but the outcomes of the work are provided to Newcastle City Council for the Combined Authority.

# North East Combined Authority

## Governance Committee

Audit Activity since September 2014

Appendix 2

Responsible Council	Name of Audit	Level of Assurance	Number of Recommendations		
			High	Medium	Low
Newcastle City Council	Governance and Performance Arrangements	Moderate	0	3	4
<b>Audit objectives and scope</b>					
<p>The review was to assess whether significant risks in relation to the Combined Authority Governance and Performance arrangements are adequately and effectively controlled, specifically to ensure that:</p> <ul style="list-style-type: none"> <li>There is a comprehensive constitution in place covering the powers and responsibilities of the Combined Authority, its Members and Officers.</li> <li>The Combined Authority has an appropriate Member and Officer structure to allow it to achieve its objectives.</li> <li>Robust partnership arrangements have been developed and operate between the Council's making up the Combined Authority and external stakeholders.</li> <li>Performance management arrangements have been established and effective monitoring takes place.</li> <li>Procedures operate efficiently and provide value for money.</li> </ul>					
Internal Audit work undertaken was as shown below					
<ul style="list-style-type: none"> <li>Discussions were held with the Interim Monitoring Officer (NECA) and the Senior Accountant (Newcastle City Council)</li> <li>The following was reviewed :</li> </ul>					

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- The NE Combined Authority Website
- The NE Combined Authority Order, Constitution and Deed of Operation
- The NE Leadership Board and Committee Responsibility for Functions
- NE Leadership Board and Committee Agendas, Minutes and Reports.
- Service Level Agreements provided by Sunderland City Council regarding the NE Local Enterprise Partnership.
- The audit covered the operation of the Combined Authority since its creation and was undertaken in November 2014.

Effective controls and good practice	High or medium priority findings
<p>Page 117</p> <ul style="list-style-type: none"><li>• A Constitution has been agreed by the North East Leadership Board covering the powers and responsibilities of the Combined Authority, its Members and Officers.</li><li>• All constituent authorities were appropriately involved in the development of the Constitution.</li><li>• The responsibilities of each of the constituent authorities are formally signed up to through the Deed of Operation.</li><li>• A committee structure has been agreed which facilitates good governance over the functions of the Combined Authority.</li></ul>	<ul style="list-style-type: none"><li>• An appointment to the post of Senior Information Risk Owner (SIRO) for the Combined Authority has not been made. (Medium)</li><li>• Service Level Agreements covering the support services provided to the Combined Authority have not been finalised or agreed. (Medium)</li><li>• A Register of the Combined Authority's Partnerships arrangements does not exist. (Medium)</li></ul>

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Responsible Council	Name of Audit	Level of Assurance	Number of Recommendations			
			High	Medium	Low	
Sunderland City Council	North East Local Enterprise Partnership	Substantial	0	0	2	

### Audit objectives and scope

The objective of the audit was to determine the level of assurance that can be provided regarding the arrangements for delivery of support services to:

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- the Combined Authority as Accountable Body for the NELEP; and
- the NELEP as its Host Authority.

The scope of the audit included the following:

- Host Authority and Accountable Body Agreement;
- Roles and Responsibilities;
- Accounting arrangements;
- Legality;
- Compliance with Funding Conditions;
- Project Appraisal, Approval and Monitoring;



# North East Combined Authority

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- Loan Repayments;
- Risk management arrangements;
- Budget management;
- Procurement arrangements;
- Reporting arrangements.

Internal Audit work undertaken was as shown below

- Following discussions with management, key risks to the achievement of the objectives of the area under review were identified. The audit then assessed the controls designed to manage these risks
- Discussions were held with the Assistant Head of Financial Resources; Principal Accountant; Solicitor; Senior Funding & Commercial Officer; and Accountant
- Testing was carried out in order to confirm whether the controls are actually in place and being applied consistently

### Effective controls and good practice

- The findings of the audit give substantial assurance that the arrangements in place for the delivery of support services to the Combined Authority and the NELEP are sufficiently robust.

### High or medium priority findings

There are no high or medium priority recommendations

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- There are strong arrangements in place to fulfil. Applicants for Regional Growth Fund / Growing Places Fund monies must submit a business case outlining their project, how it is to be funded and what outputs it is intended to achieve. A risk assessment is also completed as part of the business case looking at the various risks to the project and what action can be taken to mitigate against these risks.

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The processes for appraisal and approval of projects to be funded are considered suitably robust.

A standard funding agreement is in use and this is tailored where necessary if the NELEP's Investment Panel, and subsequently the NELEP Board, attach any specific terms to the funding offer.

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### Appendix 3 - Definitions

#### Overall Opinion

##### Full Assurance

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

##### Substantial Assurance

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

##### Moderate Assurance

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

##### Limited Assurance

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

##### No Assurance

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

#### Findings and Recommendations

##### High

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

##### Medium

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

##### Low

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

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