



## Tyne and Wear Integrated Transport Authority - Audit Committee

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Meeting to be held on Friday 14 September 2012 at 2.00 pm in a Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN

**Membership:**

**Councillors:** Curran, Lawson, Maughan, O'Shea and Smith

**Independent Members:** Mr Atkinson, Mr Clark, Ms Green and Mr Scrimshaw (Chair)

**Contact Officer:** Victoria Miller (0191) 211 5118 [victoria.miller@newcastle.gov.uk](mailto:victoria.miller@newcastle.gov.uk)

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### AGENDA

Page

**1. Apologies for absence**

**2. Declarations of interest of members or officers in any matter to be discussed at the meeting**

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 the Previous Meeting**

**1 - 8**

**4. 2011/12 Final Accounts**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the Provisions of the Local Government (Access to Information) Act 1985.

**5. Report to Audit Committee on the 2012 Audit**

Members are requested to note the intention to circulate the above report of Deloitte on a supplemental agenda in accordance with the Provisions of the Local Government (Access to Information) Act 1985.

<b>6.</b>	<b>Internal Audit Progress Report</b>	<b>9 - 12</b>
<b>7.</b>	<b>Strategic Risk Register Update</b>	<b>13 - 22</b>
<b>8.</b>	<b>Tyne Tunnels Funding and Financing Arrangements</b>	<b>23 - 26</b>
<b>9.</b>	<b>Work Programme</b>	<b>27 - 28</b>
<b>10.</b>	<b>Date and time of next meeting</b>	
	Friday, 22 February 2013 at 2pm.	



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## Tyne and Wear Integrated Transport Authority - Audit Committee

20 July 2012  
(2.00 - 3.35 pm)

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### **Present:**

Independent Members: Mr Atkinson, Ms Green and Mr Scrimshaw

Councillors: Maughan, O'Shea and Smith

### **In attendance:**

#### **Newcastle City Council:**

I Poll - Head of Democratic Services  
P Slater - Head of Audit and Strategic Risk  
E Goodman - Senior Accountant (ITA)  
I Pattison - Principal Auditor (ITA)  
R Elliott - Head of Strategy, Planning and Performance  
H Wilson - Legal Advisor  
V Miller - Democratic Services Officer

#### **Deloitte:**

C Craig  
D Wilkinson

### **1. ELECTION OF CHAIR**

**RESOVLED** – That Mr Scrimshaw be appointed as Chair of the Committee for the Municipal Year 2012/13.

### **2. ELECTION OF VICE-CHAIR**

**RESOVLED** – That Ms Green be appointed as Vice-Chair of the Committee for the Municipal Year 2012/13.

### **3. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Curran and Lawson and also from the Independent Member Mr Clark.

### **4. DECLARATIONS OF INTEREST OF MEMBERS OR OFFICERS IN ANY MATTER TO BE DISCUSSED AT THE MEETING**

None received.

5. **MINUTES OF THE SPECIAL MEETING OF THE ITA STANDARDS AND AUDIT COMMITTEE HELD ON 20 APRIL 2012**

The minutes of the special meeting of the ITA Standards and Audit Committee held on 20 April 2012 were confirmed as a correct record and signed by the Chair.

6. **MINUTES OF THE PREVIOUS MEETING OF THE ITA STANDARDS AND AUDIT COMMITTEE HELD ON 24 FEBRUARY 2012**

The minutes of the previous meeting of the ITA Standards and Audit Committee held on 24 February 2012 were confirmed as a correct record and signed by the Chair.

7. **DELOITTE - PLANNING REPORT**

Submitted: A report of Deloitte (previously circulated and copy attached to Official Minutes).

C Craig presented Deloitte's planning report on the 2012 audit of the Authority.

**Questions/Comments**

- In responding to a member's request for clarification of the reference made to a risk associated with the accounting treatment of the Tyne Tunnels, as in section 2 of the report, C Craig explained that due to the complexity of the scheme there was a risk of errors in its accounting treatment, but this risk was currently being managed. She further clarified that, by the nature of their work, external auditors had to focus their planning on areas of potentially significant risk.
- A member queried whether the Authority was consulted on the appointment of external auditors. In response, officers explained that although there had been no formal consultation with the elected members of the Authority, the Audit Commission had sent a letter to the Clerk outlining the intended appointment which was somewhat definitive. On request from a member, officers would check how this matter could be raised with the Authority. **(Action: Senior Accountant).**
- It was noted that at its Annual Meeting on 31 May 2012 the Authority had approved the Committee's Terms of Reference valid up to 1 July 2012 and also the revised Terms of Reference to come into existence from 1 July 2012. A copy would be provided to members electronically prior to its circulation for the next meeting. **(Action: Democratic Services).**
- Members queried the issue of the non-alignment of the legal documentation for the North East Smart Ticketing Initiative (NESTI) to the actual funding arrangements, as in section 5 of the report, and requested an update to clarify this matter. **(Action: Deputy Clerk and Treasurer).**
- C Craig confirmed that the "learning the lessons" meeting with the finance team was a newly proposed post-reporting activity.

- It was also confirmed that the audit of the Authority was funded from the Authority's own budget and not from the audit budget of the Newcastle City Council.

**RESOLVED** – That

- (i) the report be noted;
- (ii) the actions outlined above be addressed as appropriate.

**8. OUTTURN AND DRAFT FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2011/12**

Submitted: A report of the Treasurer and Deputy Clerk (previously circulated and copy attached to Official Minutes).

E Goodman presented the report which provided a summary of the Authority's financial results for 2011/12, presented the key accounting statements and provided an overview of significant financial matters which had occurred during the year. She invited members to comment on the report before it was presented to the 26 July meeting of the Authority.

**Questions/Comments**

- Members were generally pleased with the report and the improvements made to the clarity of its presentation.
- A member made a general comment that improvements should be made to the presentation and explanation of accounting adjustments as these were difficult to understand.
- Members requested more information on NESTI to be brought to the next meeting, including information on the progress of the project and also on its funding.
- Clarification was sought on the difference in figures for audit fees presented in section 3.1 of this report and section 1 of Deloitte's report as in agenda item 7. Officers would provide clarification. **(Action: Senior Accountant)**.
- It was clarified that for the Metro Asset Renewal Plan (ARP) Nexus received funding directly from the Department for Transport (DfT) and for that reason the financing of ARP was carried out through Nexus' accounts.
- A member expressed concerns about the budget deficit of the Authority.
- A member queried the higher than budgeted usage payments for the Tyne Tunnels. E Goodman explained that this was due to the Permission to Use Vehicle Tunnel 2 (PTU 2) stage being achieved earlier than expected. This early completion represented benefits for the users; however, it also meant that the usage payments paid by the Authority to TT2 were higher. In respect of this and further questions from members on the financial

aspects of the Tyne Tunnels, members agreed to receive a short report at a future meeting **(Action: Senior Accountant)**.

- In response to a member's question about plans to address the Authority's financial deficit and also about the position with the potential reduction in the levy, it was explained that all five Councils were under significant financial pressures and discussions were currently ongoing on the financial position of the Authority beyond the completion of the Medium Term Financial Plan.
- Members commented that whilst they understood the financial pressures on the Authority, they were concerned that the Authority's budget had very little room to achieve further savings. They asked about plans for the future and also whether alternative solutions to efficiency savings were being considered. **(Action: Clerk and Deputy Clerk and Treasurer)**.
- Officers confirmed that the risk associated with the future financial position of the Authority remained highlighted in the strategic risk register.

**RESOLVED** – That the report and members' comments be noted and addressed as appropriate.

## 9. **ANNUAL GOVERNANCE STATEMENT 2011/12**

Submitted: A report of the ITA Officer Working Group (previously circulated and copy attached to Official Minutes).

R Elliott presented the report which outlined the summary of the annual review of the Authority's governance and internal control arrangements and also presented the Authority's Annual Governance Statement (AGS) as accurate to date. If there were any further amendments made to the AGS, they would be reported to members prior to the final publication in September.

### **Questions/Comments**

- In response to a member's question, I Pattison explained that the Authority's Strategic Risk Register was historically presented to members on a 6-monthly basis. To link this reporting with the current cycle of meetings of the Committee, a risk report would now be submitted to the September and February meetings. The Senior Policy Officer, with support from Internal Audit, maintained the Register. There were arrangements in place to understand and consider operational risks managed by Nexus and in relation to the New Tyne Crossing project, to determine any impact they might have on the risks of the Authority.
- It was confirmed that the Authority had no operational responsibilities. These responsibilities were allocated to Nexus.
- Members discussed possible training available to them to assist them in undertaking their responsibilities as members of the Committee. Amongst the themes suggested by

members at the meeting were the Tyne Tunnels, the split of responsibilities between the ITA and Nexus and business planning. It was agreed that members would identify what training they felt they needed on audit matters and contact relevant officers with suggestions before a respective training session could be organised ahead of the next meeting.

- To enhance members' general knowledge of the Authority's business and key current projects, members would be invited to future induction training and away days. **(Action: Clerk and Deputy Clerk and Treasurer).**
- Concerns were expressed about the shared roles of the Treasurer as the Treasurer of the Authority and also the Chair of the Audit Committee of Nexus. Members asked for this to be clarified. **(Action: Deputy Clerk and Treasurer).**
- A member queried why the ITA Scrutiny Committee was constituted with non-ITA members. A member recommended that the Authority should be scrutinised by its own members who had a greater knowledge of its business areas than independent members. During the discussion of this matter a number of views were expressed, including a comment that as all members of the Authority were involved in the decision-making, it would not be effective for the Authority to be scrutinised by its own members. It was also clarified that, over the years, the members of the Scrutiny Committee had undergone a significant amount of learning and development, which had been specifically requested by members of the then Standards and Audit Committee. Those members were therefore skilled to conduct scrutiny of the Authority.
- In responding to a member's query, officers explained that the Working Groups of the Authority were responsible for working on specific issues respective to their remit. The results of their work informed further work of officers and were fed into subject-specific reports to the Authority. These were informal working groups which did not produce routine annual reports to the Authority but instead fed into recommendations submitted to the Authority on specific subjects. The Terms of Reference of these working groups would be circulated to members electronically and also be provided to the next meeting. **(Action: Clerk and Democratic Services Officer).**
- In responding to a member's query, it was noted that information on the previous and current portfolios and portfolio holders would be provided to the next meeting. **(Action: Clerk).**

**RESOLVED** – That the report and members' comments be noted and addressed as appropriate.

#### 10. **REVENUE BUDGET MONITORING REPORT TO JULY 2012**

Submitted: A report of the Treasurer and Deputy Clerk (previously circulated and copy attached to Official Minutes).

E Goodman presented the report which provided an update on the revenue budget monitoring position for the period 1 April 2012 to 30 June 2012.

In response to a member's query about the higher than budgeted increase in the payment for the TT2 contract, it was agreed that officers would address this query as part of a report to a future meeting on the financing of the Tyne Tunnels. **(Action: Deputy Clerk and Treasurer and Senior Accountant).**

**RESOLVED** – That the report and a member's comment be noted and addressed as appropriate.

11. **INTERNAL AUDIT ANNUAL REPORT AND OPINION OF THE HEAD OF AUDIT AND STRATEGIC RISK**

Submitted: A report of the Head of Audit and Strategic Risk (previously circulated and copy attached to Official Minutes).

P Slater presented the Annual Report of the Internal Audit and also the Opinion of the Head of Audit and Strategic Risk.

**Questions/Comments**

- Members requested that further progress should be made on the return of satisfaction surveys.
- A member commented on the status of the Strategic Business Planning, which was satisfactory.

**RESOLVED** – That the report and members' comments be noted and addressed as appropriate.

12. **INTERNAL AUDIT PROGRESS REPORT**

Submitted: A report of the Head of Audit and Strategic Risk (previously circulated and copy attached to Official Minutes).

I Pattison presented the report which outlined the performance of the Internal Audit against the Annual Audit Plan.

It was agreed that officers would e-mail members with a website link to provide them with information on the 3<sup>rd</sup> Local Transport Plan (LTP3). **(Action: Internal Auditor).**

**RESOLVED** – That:

- (i) the progress against the 2011/12 Audit Plan be noted;
- (ii) the position on the implementation of audit recommendations 2010/11 and 2011/12 be noted.



13. **INTERNAL AUDIT STRATEGIC PLAN 2012/13 TO 2014/15 (INCLUDING THE ANNUAL PLAN 2012/13)**

Submitted: A report of the Head of Audit and Strategic Risk (previously circulated and copy attached to Official Minutes).

P Slater presented the report which outlined the revised Internal Audit Strategic Plan 2012/13 to 2014/15 and invited members to comment on it.

**RESOLVED** – That subject to the amendment of the frequency of the audit of Performance Management to bi-yearly the current Strategic Audit Plan 2012/13 to 2014/15 be agreed.

14. **WORK PROGRAMME**

Submitted: Committee's work programme 2012/13 (previously circulated and copy attached to Official Minutes).

Members agreed the following additions and amendments to the work programme:

- The Terms of Reference of all committees and working groups of the Authority be circulated to members.
- An update on the Treasury Management be provided to a future meeting.
- A report on Concessionary Travel be provided to a future meeting.
- Officers would check whether there was information available on the effect of the Localism Act on the levy.

**RESOLVED** – That subject to the additions outlined above the work programme be agreed.

15. **DATES AND TIME OF FUTURE MEETINGS**

Members agreed the following dates and times of future meetings:

Friday 14 September 2012 at 2pm

Friday 22 February 2013 at 2pm

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**DATE:** 14 September 2012  
**SUBJECT:** Internal Audit Progress Report  
**REPORT OF:** Head of Audit and Risk

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## Report for information

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### PURPOSE OF REPORT

The CIPFA Internal Audit Code of Practice 2006 requires Internal Audit to regularly monitor its performance against the Annual Audit Plan and to report progress during the year to Audit Committee. The Code also requires Internal Audit to report to Committee on the implementation of recommendations. This report satisfies these requirements by providing the following information:

- A statement on progress against the Annual Internal Audit Plan 2012/13.
- The position on the implementation of audit recommendations.

### RECOMMENDATIONS

Audit Committee is recommended to note:

- Progress against the 2012/13 Audit Plan.
- The position on the implementation of audit recommendations.

### BACKGROUND DOCUMENTS

Held by, and available from, the contact officers.

### CONTACT OFFICERS

*Philip Slater, Head of Audit and Risk*      [philip.slater@newcastle.gov.uk](mailto:philip.slater@newcastle.gov.uk)      0191 2776511

*Ian Pattison, Principal Auditor*      [ian.pattison@newcastle.gov.uk](mailto:ian.pattison@newcastle.gov.uk)      0191 2776885

### IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral

## 1 Executive Summary

This report shows Internal Audit activity since the last Committee meeting in July 2012 and summarises the following:

Details	Assessment	Comments
Progress against the Annual Audit Plan 2012/13 (see 3)	Satisfactory	1 audit is in progress and planning discussions are ongoing with senior officers in relation to the remaining audits.
Implementation of recommendations (see 4)	Good	No recommendations outstanding.
Internal Audit Performance Indicators (see 5)	Satisfactory	No completed audits in 2012/13. Number of days utilised is in line with expectations for work undertaken to date.

## 2 Introduction and Background

2.1 At its meeting on 20 July 2012, the Audit Committee approved the Strategic Internal Audit Plan 2012/13-2014/15 including the Annual Internal Audit Plan 2012/13.

2.2 This report is produced in accordance with the CIPFA Internal Audit Code of Practice 2006 which requires Internal Audit to regularly monitor its performance against the Annual Audit Plan and to report progress during the year to Audit Committee. The Code also requires Internal Audit to report to Committee on the implementation of recommendations.

## 3 Progress against the Annual Audit Plan 2012/13

3.1 The table below provides Committee with the current status of each audit in the 2012/13 plan.

Audit	Status
Tyne Tunnels Contract Monitoring	In progress
North East Smart Ticketing Initiative	Planning stage
Local Sustainable Transport Fund	Planning stage
Local Transport Plan	Planning stage
Performance Management	Planning stage
Concessionary Travel	Reliance upon Nexus Internal Audit work taken at year end.
Metro Re-invigoration	Reliance upon Nexus Internal Audit work taken at year end.



**4 Recommendations Follow Up**

4.1 Management is responsible for implementing all audit recommendations. Internal Audit follows 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. As low priority recommendations are not vital to the Authority's system of internal control these are not followed up by Internal Audit.

4.2 There are no outstanding recommendations relating to TWITA audits. 1 medium priority recommendation was raised within the Strategic Business Planning audit and is due for implementation by 30 September 2012. This is in relation to developing a Performance Management Framework which enables the delivery of LTP3 to be effectively monitored. ITA officers are finalising arrangements and these will be agreed by the working group in due course.

**5 Internal audit Performance Indicators**

5.1 Internal Audit has a number of internal performance indicators agreed with the Committee. The table below shows the indicators used and our performance in 2012/13 to date. The figures shown in brackets represent the number of audits to which the performance indicator relates.

<b>Performance Indicator</b>	<b>Target</b>	<b>Actual</b>
Completion of the Annual Internal Audit Plan.	100% (5)	0% (0)
Number of audit days provided in line with SLA activity, i.e. both direct and indirect audit work.	35	4
Average satisfaction survey score (maximum score 5)	4 (5)	N/A

5.2 There have been no audits completed within 2012/13 but the number of audit days utilised is in line with expectations for work undertaken to date.

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**DATE:** 14 September 2012  
**SUBJECT:** STRATEGIC RISK REGISTER UPDATE  
**REPORT OF:** Acting Clerk to the ITA

## PURPOSE OF REPORT

This report provides an update on the ITA's strategic risks and opportunities. It is provided to the ITA Audit Committee for comment in advance of submission to additional ITA Committees.

## RECOMMENDATIONS

Members of the Committee are asked to:

- Review and comment on the strategic risk register, including the appropriateness of the inclusion of those areas specifically highlighted in this covering report; and
- Identify any further significant risks, mitigating actions or opportunities for consideration.

## BACKGROUND DOCUMENTS

Strategic Risk Update paper to Standards and Audit Committee, 24/02/2012

## CONTACT OFFICERS

*Graham Grant*                      *graham.grant@newcastle.gov.uk*                      *0191 211 6011*

## IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral



<b>1</b>	<b>Executive Summary</b>
1.1	This report provides an update on ITA strategic risks and opportunities, incorporating mitigating actions. The formal risk process adopted by the ITA aims to provide assurance that significant risks and opportunities associated with the delivery of ITA business are identified, monitored and managed.
<b>2</b>	<b>Introduction and Background</b>
2.1	The ITA Strategic Risk and Opportunity Register is regularly monitored and reported to ITA Audit Committee twice per annum to ensure risk ratings reflect emerging risks and opportunities and that progress is being made in reducing current risks and maximising opportunities.
2.2	The risks and opportunities register has been reviewed by officers of the ITA taking into account similar registers from partner organisations such as Nexus and the Tyne Tunnel Concessionaire (TT2). Significant changes / issues for consideration that have occurred since the last review are summarised within this covering report. Risks and opportunities are merged within the register to present a coherent overview.
<b>3</b>	<b>Strategic Risk Update</b>
3.1	This report provides all strategic risks and opportunities (presented in <b>Appendix A</b> ).
3.2	<p>The last review of the Strategic Risk Register was reported to the (then) ITA Standards and Audit Committee in February 2012. Since this time a number of events have occurred that may have mitigated, or changed the focus of some strategic risks and opportunities. The completion of actions associated with risks will be reported at the meeting, wider strategic issues are briefly summarised below:</p> <ul style="list-style-type: none"><li>- The Government has confirmed its intention to devolve the allocation of funding (and associated governance) for local transport ‘major’ schemes across the north east (seven local authority footprint area) from 2015 onwards;</li><li>- The Government has released consultations on proposed changes to the Concessionary Travel Formula Grant, rail devolution and franchising, and the future of aviation in the UK;</li></ul>





REPORT FOR INFORMATION

	<ul style="list-style-type: none"><li>- Recent statements from government offer indications that there may be potential for major infrastructure investment, including in transport;</li><li>- The Government has committed to ‘opening up’ data sources (including transport datasets) to help drive efficiencies and stimulate innovation;</li><li>- The ITA was successful in securing £4.9m through the DfT’s ‘Better Bus Areas’ funding opportunity;</li><li>- A City Deal between Newcastle City Council and the government has been announced, it includes work to promote elements of our regional transport infrastructure;</li><li>- A revised bid for £4.95m funding from government has been submitted to support interventions in local sustainable transport; and</li><li>- The resilience of the existing transport network to the impact of severe weather has been highlighted.</li></ul>
3.3	<p>For this review of the register officers have maintained the format adopted at the last review. This reflects changes made by government to the way business cases must be outlined – it seems sensible to consider our risks in the same ways. Therefore the register now outlines risks and opportunities within five broad areas, that will show whether our ongoing work:</p> <ul style="list-style-type: none"><li>- Fits with wider public policy objectives – ‘strategic’ risks and opportunities;</li><li>- Demonstrates value for money – ‘economic’ risks and opportunities;</li><li>- Is financially affordable – ‘financial’ risks and opportunities;</li><li>- Is commercially viable – ‘commercial’ risks and opportunities; and</li><li>- Is achievable – ‘management’ risks and opportunities.</li></ul>
<b>4</b>	<b>Next Steps</b>
4.1	<p>Verbal updates on the various actions and discussion around the issues highlighted in 3.2 will inform the written revision of the Strategic Risk Register. This will be amended and sent to members of the Audit Committee in advance of their next meeting to ensure comments received are incorporated into the revised risk register.</p>
4.2	<p>The ITA will continue to receive strategic risk and opportunity updates on an annual basis.</p>



**Tyne and Wear ITA Strategic Risk Register – February 2012**

*Purpose - To enable all risks and opportunities to be recorded, evaluated and further actions planned in order to inform resource management and budget allocation.*

Identification		Analysis				Control measures					
Ref	Opportunity / Risk description	Owner	Manager	Control mechanisms	Likelihood	Impact	Risk priority	Target risk priority	Actions to reduce risk	Target deadline	Action manager
<b>Strategic</b>											
1	<p>The importance of ITA policies providing partners with a clear strategic direction while also being integrated in any new governance arrangements for transport delivery.</p> <p>In order to do so the ITA must ensure its policies (wherever possible) consider emerging government policies and consultations across various themes, to include:</p> <ul style="list-style-type: none"> <li>- different modes of transport,</li> <li>- wider geographical areas,</li> <li>- integration with wider policy areas such as the economy, health and wellbeing, climate change and skills.</li> </ul>	ITA Clerk	ITA Policy	<p>Effective governance and reporting mechanisms to ensure officers are aware of (and inform Members of) opportunities and risks across different geographical areas that have the potential to impact on the delivery of Tyne and Wear ITA's core aims and objectives – including links to the newly established Local Enterprise Partnership level.</p> <p>Regular ITA Policy seminars bring together the Members of ITA with a number of Officers to discuss future and emerging policy changes / consultations.</p> <p>Strengthened dialogue between Tyne and Wear Leadership Group and ITA facilitated by the ITA Clerk leading on senior / director level discussions.</p> <p>Clerk of the ITA leading on engagement with the Local Enterprise Partnership.</p> <p>ITA Officer Coordination Group meetings.</p> <p>Tyne and Wear Joint Transport Steering Group.</p> <p>ITA, LTP and Nexus Officer Liaison Meetings.</p> <p>ITA working-groups (LTP, Bus Strategy, E&amp;D, Metro).</p> <p>ITA listed in latest consultation from government as a recommended member of new 'Transport Body' for</p>	Med	Med	Amber (9)	Green (6)	<p>Audit of existing structures to ensure ITA continues to set the strategic direction for Tyne and Wear transport through LTP3 delivery – for example, all officer working groups to have new terms of reference drafted for implementation in April 2012.</p> <p>Clerk of the ITA to take lead in continuing effective engagement with Local Enterprise Partnership and LTP partners (through meetings, forums and workshops/events).</p> <p>Monitor emerging developments around regional/local transport policy, governance and investment planning.</p> <p>Continue to review and refresh ITA Policy statement to reflect new roles defined by Local Transport Act and set new strategic direction (via new vision and objectives).</p> <p>Ensure ITA takes a leading role in the new 'Transport Body' as recommended in current consultation on major scheme devolution.</p> <p>Representation on wider bodies for promotion and implementation of transport policies and lobbying: including, but not exclusively, Core Cities and the Eastern Network Partnership (rail).</p>	<p>March 2012</p> <p>Ongoing</p> <p>Ongoing</p> <p>May 2012</p> <p>Ongoing</p> <p>Ongoing</p>	<p>ITA Policy</p> <p>ITA Policy</p> <p>ITA Policy</p> <p>ITA Policy</p> <p>ITA Policy</p> <p>ITA Policy</p>



				<p>major scheme devolutions. ITA leading on High Speed Rail and classic rail network on behalf of LTP partners, in liaison with wider geographic area such as LEP. Co-ordinated discussion between Leadership and Govt. through all means, including Core Cities, PTEG, etc</p>							
2	<p>Equalities issues not fully considered in policy formulation and other activities of the ITA, resulting in potential reputational damage, legal challenge and/or failure to deliver ITA vision and objectives.</p>	<p>ITA Deputy Clerk</p>	<p>ITA Policy Nexus Director of Customer Service</p>	<p>Existing equalities Codes of Nexus and Metro. Complaints System. No claims successfully lodged. Establishment of Equalities and Diversity ITA Working Group. Contributed towards NCC directorate Equalities and Diversity Action Plan. Revision of website to ensure easier access in line with best standards. Review of implications of Equality Act 2010.</p>	<p>Low</p>	<p>Med</p>	<p>Green (6)</p>	<p>Green (4)</p>	<p>Equalities assessments for ITA and Nexus Policy and Strategies:  <ul style="list-style-type: none"> <li>ITA Policies and objectives</li> <li>Nexus Strategies</li> </ul>           Review of ITA / Nexus Equalities Scheme(s)             Implement changes to equalities obligations as outlined in Equalities Act 2010 – this involves the ITA adopting an existing PTE (Nexus) responsibility.</p>	<p>Ongoing Ongoing  As required by govt.</p>	<p>ITA Policy Nexus Head of Customer Service  ITA Policy and Nexus lead on equalities</p>
3	<p>Reputational and financial opportunities and threats associated with 'Delivering the Bus Strategy' project.</p>	<p>ITA Clerk Nexus Director General</p>	<p>ITA Policy Nexus Head of Planning Strategy  Local authorities</p>	<p>Individual risk register has been created for this project held by Nexus in addition to it being the major change to the latest Nexus Strategic Risk Register. Detail of relationship is handled by Nexus through regular meetings with Bus Operators. Bi-lateral meetings between operators and districts occur periodically. Ongoing dialogue with other PTEs and ITAs (through PTEG, ITA etc). ITA Bus Strategy Working Group established. ITA Clerk holds regular meetings with bus operators.</p>	<p>Med</p>	<p>High</p>	<p>Red (12)</p>	<p>Amber (9)</p>	<p>Ensure risk registers for this project are kept updated and acted upon to maximise the opportunities presented by this work and mitigate against the potential threats. Review governance of project with ITA overseeing this review.</p>	<p>Ongoing – by September 2012  Ongoing – by September 2012</p>	<p>Nexus Director of Customer Service  ITA Policy</p>



<b>Economic</b>										
4	Project: Metro Reinvigoration Failure to provide effective challenge and governance to the Metro Reinvigoration Project.	ITA Clerk Nexus Director General	ITA Deputy Clerk Nexus Director of Rail and Infrastructure	Governance process approved within Outline Business Case is being followed. Ongoing dialogue with DfT Phase 1 and 2 approval received Expansion of capital programme reporting to illustrate key performance / project milestones to the ITA and ITA Scrutiny Committee Regular reports by Nexus to the ITA on Metro reinvigoration activity.	Med	Med	Amber (9)	Green (6)	Phase 2 ongoing. Regular reviews of programme to ensure best value for money for passengers. Regular updates at Policy Seminars and ITA Metro sub-committees	Phase 2 – 2010 - 2021  Nexus Director of Rail and Infrastructure ITA Policy
5	Project: New Tyne Crossing Impacts of NTC construction that could result in damage to community relations and reputation damage to the ITA / risk of not associating the reputational benefits from delivery to the ITA.	NTC Project Director	NTC Project Manager	Full Risk Assessment completed of all key phases of project – influenced negotiations of terms (regular reporting to NTC Project Board and ITA as required) Dedicated NTC Project Manager and Project Director as part of Project Governance, based onsite. Project Agreement protects ITA from financial liability for late delay.	Low	Med	Green (6)	Green (6)	New Tyne Crossing programme has been delivered. Overhaul of Tyne Pedestrian and Cycle Tunnels.	Ongoing – legacy June 2013  ITA Policy NTC Project Director
6	Risk of missing the opportunities presented by regional Smart Ticketing initiative (NESTI) to deliver ITA policy objectives around transport goals such as modal shift and network integration – and wider applications.	ITA Clerk Nexus Director General	ITA Policy Nexus Director of Finance and Resources	Update to ITA members at ITA Policy Seminar Regular updates at ITA meetings Funding secured from local authority partners Collaboration Agreement confirmed and governance (overseen by ITA) found to be 'good'.	Med	Med	Amber (9)	Green (6)	Delivery of North East Smart Ticketing Initiative (NESTI) in partnership with Local Authorities, operators and other stakeholders.	Ongoing (review progress in April 2011)  ITA Policy Nexus Director of Finance and Resources
<b>Financial and commercial</b>										
7	Reduction in public sector finance to include: Future public spending restrictions by Central	ITA Clerk Nexus Director	ITA Treasurer Nexus Director of Finance and	Funding secured for Metro Reinvigoration Phase 2. Earmarked reserves held to fund Tyne Tunnels and Metro	Med	High	Red (12)	Amber (8)	Continue to champion business case for Tyne and Wear schemes through member and officer structures. Continue to lobby & influence	Ongoing – review Dec 2012 Ongoing – review Dec 2012  ITA Clerk, Nexus DG ITA Clerk, Nexus DG



Government, impacting on key ITA projects and ability to deliver policy objectives. Insufficient funding for Concessionary Fares resulting in restricted ITA ability to fund other transport services, reduction in some services and adverse publicity.	General	Resources	Reinvigoration work. Construction phase of NTC project now complete. £10m funding secured for NESTI project to deliver Smart Ticketing across the North East. Budget agreed for TPCT refurbishment works and built into NTC financial model Successful bid for LSTF funding for key components package - £4.9m DfT funding and £5.9m Local Contributions. Business case submitted for further LSTF funding - £25m programme to promote sustainable access to key employment sites. Representations made to DfT for support for Tyne Tunnel to achieve equitable treatment with other key river crossings such as Humber Bridge and Mersey Gateway. This would allow tolls to be capped at £1.50. Effective Capital programme monitoring to ensure schemes are delivered on budget and provide demonstrable value for money. Concessionary fares: ITA Treasurer involved in Settlement Working Group; Nexus FD involved in PTEG Working Groups				Department for Transport and other Government Departments on issues of Tyne and Wear transport challenges and opportunities, local transport funding and other funding mechanisms/opportunities. Develop evidence outlining the wider economic costs to Tyne and Wear of not delivering priority major schemes. Deliver improvements to Tyne Pedestrian and Cycle Tunnels (inclined lift and other improvements) within allocated budget Tyne Tunnels setting of Concession toll – analysis/modelling to ensure toll set at appropriate level to enable Tunnels to be self-financing over the life of the TT2 contract and beyond. Continue to press for formula change. Issues to be raised over the period with CLG and DfT. Bid to be submitted for resources from Better Bus Areas Fund. Respond to DfT consultation on devolving local major transport schemes – potential opportunity for ITA to take lead on prioritising and funding major schemes. Deputy Clerk and Treasurer to examine opportunities for alterations in the way Concessionary Travel schemes are funded nationally as part the Baseline Formula Review from 13/14.	Ongoing – review Dec 2012 Major Works to be delivered in 2012/13 August 2012 Ongoing – review Dec 2012 Feb 2012 March 2012 March 2012	ITA Treasurer, Nexus Director of Finance NTC Project Director NTC Project Director ITA Treasurer, Nexus Director of Finance ITA Clerk ITA Clerk ITA Deputy Clerk and Treasurer
8 Pressure on Levy from Tyne & Wear Districts Pressures on Tyne and Wear Districts' budgets leading to severe reductions in levy awarded to ITA.	ITA Treasurer	ITA Treasurer	Agreed three year strategy for 2011/12 – 2013/14 with all Tyne & Wear Districts. This provides for a 5% reduction 2011/12, further 5% in 2012/13 and cash freeze 2013/14. Strategy includes use of ITA and Nexus unearmarked reserves – maintaining prudent minimum level.	Med	Med	Red (12)	Amber (8)	ITA Treasurer ITA Treasurer, Nexus Director of Finance ITA Treasurer, Nexus Director of Finance	



							Strategy allows for development of more sustainable savings over the longer term through Quality Partnerships or Quality Contracts scheme Significant efficiency savings delivered on both ITA and Nexus budgets in recent years. Pension costs (significant for ITA and Nexus budget) fixed until 2013/14 under 2010 triennial valuation ITA Budget reviewed and strategy agreed with Tyne & Wear Treasurers, Chief Executives and Leaders Groups.				Work on loans portfolio to take advantage of low rates and reduce financing costs	Sep 2012	Finance ITA Treasurer	
<b>Management</b>														
9	Ineffective Performance Management leading to ineffective decision making and inappropriate use of resources.	ITA Clerk	ITA Policy				Local Transport Plan and annual progress reports align policies and targets. Nexus Business Intelligence Annual Report of public transport and socio-economic trends Monitoring of LTP2 performance indicators. Various liaison meetings as highlighted in the 'Strategic' section.	Low	Med	Green (6)	Green (4)	Resource planning to ensure the best delivery of ITA Policy.	March 2013	ITA Policy
10	Opportunity to further develop processes and arrangements for scrutiny to ensure that the ITA remains democratically accountable and transparent, and that the best possible outcomes are delivered for Tyne and Wear.	ITA Clerk	NCC Head of Democratic Services				Scrutiny processes managed and supported through NCC Scrutiny Management Team Budget allocated by the ITA to support and develop the Committee's working methods. Scrutiny work programme reviewed and aligned against key LTP3 policy areas. Scrutiny Advisory Committee evaluates its work annually and	Med	Med	Green (6)	Green (4)	Review scrutiny forward programme in parallel with ITA forward programme to ensure relevant items and issues are considered by scrutiny committee, and that value is added to the ITA process.	May 2012	ITA Policy





ITA STRATEGIC RISK AND OPPORTUNITY MATRIX

		Impact			
		Nil	Low	Medium	High
Likelihood	High			<ul style="list-style-type: none"> <li>ITA policies providing partners with a clear strategic direction while also being integrated in any new governance arrangements for transport delivery</li> <li>Failure to provide effective challenge and governance to the Metro Re-invigoration Project</li> <li>Opportunities presented by regional Smart Ticketing initiative (NESTI)</li> <li>Pressure on Levy from Tyne &amp; Wear Districts</li> <li>Opportunity to further develop process and arrangements for scrutiny.</li> </ul>	<ul style="list-style-type: none"> <li>Reputational and financial opportunities and threats associated with 'Delivering the Bus Strategy' project.</li> <li>Reduction in public sector finance including future public spending restrictions and insufficient funding for Concessionary Fares</li> </ul>
	Medium			<ul style="list-style-type: none"> <li>Equalities issues not fully considered in policy formulation and other activities</li> <li>Impacts of NTC construction</li> <li>Ineffective Performance Management</li> </ul>	
	Low				
	Nil				

Closed risk log from last Risk Register (March 2011):

- No15 (April 06) – merged into Ref 1
- No13 (April 06) – becomes Ref 9
- No 33 (Nov 08) – merged into Ref 7
- No 11 (April 06) – merged into Ref 8
- No 23 (April 06) – merged into Ref 7
- No 28 (Nov 07) – merged into Ref 7
- No 7 (April 06) – becomes Ref 4
- No 29 (June 07) – closed, but wider remit becomes Ref 5
- No 34 (Dec 08) – closed, similar issues merged into Ref 1 re major scheme devolution consultation
- No 38 (Dec 08) – becomes Ref 2
- No 12 (April 06) – merged into Ref 3
- No 37 – becomes Ref 6
- No 25 (May 06) – merged into Ref 1
- No 20 (April 06) – becomes Ref 10

		Impact			
		Nil	Low	Medium	High
Likelihood	High	4	8	12	16
	Medium	3	6	9	12
	Low	2	4	6	8
	Nil	1	2	3	4





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REPORT FOR INFORMATION

**DATE:** 14 September 2012  
**SUBJECT:** Tyne Tunnels Funding and Financing Arrangements  
**REPORT OF:** Treasurer and Deputy Clerk, ITA

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## PURPOSE OF REPORT

This report provides information and background on the financing and accounting for the Tyne Tunnels and the New Tyne Crossing project.

## RECOMMENDATIONS

Audit Committee is recommended to receive this report for information and comment.

## BACKGROUND DOCUMENTS

Available from contact officer.

## CONTACT OFFICERS

<i>name</i>	<i>email</i>	<i>phone</i>
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## IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral

<b>1</b>	<b>Executive Summary</b>
1.1	At the last meeting of Audit Committee, members requested further detail on the payments to TT2 for the operation of the Tyne Tunnels, which form a significant proportion of the expenses within the Tyne Tunnels trading account.
1.2	This report provides an overview of how the Tyne Tunnels are funded and accounted for by Tyne and Wear Integrated Transport Authority (TWITA).
<b>2</b>	<b>Background to the Tyne Tunnels</b>
2.1	The Tyne Tunnels (comprising two road tunnels and the Pedestrian and Cycle Tunnels) are owned by TWITA. The original Road Tunnel was constructed in 1967, and construction work on the second Road Tunnel was completed in 2011.
2.2	TT2 was appointed in November 2007 as Concessionaire to design, build, part finance and operate the new vehicle tunnel and other developments associated with the New Tyne Crossing project, and to operate the Tunnels until 2037.
2.3	The Tunnels are accounted for by TWITA as a ringfenced trading account. This means that all costs (including the costs of interest and principal repayments on borrowing undertaken to finance the new construction) are met from the tolls paid by the users of the Tunnels. There is no levy funding provided to meet the costs of running the Tunnels, and tolls are not used to fund other TWITA expenditure.
<b>3</b>	<b>Construction</b>
3.1	TWITA funded approximately 45% or £116m of the project's construction costs with a capital contribution borrowed from the Public Works Loans Board under the Prudential Code with Local Authority Accounting ("Prudential Borrowing"). The £116m was paid as milestone payments to TT2 during the course of the construction works, between January 2010 and October 2011.
3.2	The remaining costs of construction were financed by TT2 under the terms of the Contract.
<b>4</b>	<b>Monthly Usage Payments</b>
4.1	Under the contract with TT2, all of the toll income is paid to TWITA within 4 working days of collection. A monthly usage payment, based on the level of tolls collected, is calculated based on an agreed Payment Mechanism and is paid to TT2 within 30 working days of the month end.



REPORT FOR INFORMATION

4.2	<p>The Payment Mechanism calculates a Usage Payment from agreed charges per vehicle, which is allocated between TT2 and TWITA within bands as follows:</p> <ul style="list-style-type: none"><li>• TWITA retains all revenue within Band 0.</li><li>• During Phase 1 construction, TWITA received 70% of revenues in Band 1.</li><li>• Between Phase 1 and Phase 2 completion, TWITA received 60% of Band 1 revenues.</li><li>• Following Phase 2 completion, TT2 receives all revenues in Band 1.</li><li>• There is a gain share mechanism that allocates remaining revenues in Bands 2 to 4 between TWITA and TT2.</li></ul>
4.3	<p>In cash terms, this means that Usage Payments to TT2 have increased significantly on completion of the construction works, from £2.915m in 2010/11 to £6.522m in 2011/12 and an estimated £14.030m in 2012/13. Surpluses have been built up during the years of the construction works, and the Tyne Tunnels now has a significant level of reserves which will be used to meet borrowing costs and provide a cushion to deal with any unforeseen risks.</p>
<b>5</b>	<b>Accounting for the Project</b>
5.1	<p>Since TWITA owns the Tunnels, it recognises them as Infrastructure Assets within Property, Plant and Equipment on its Balance Sheet.</p>
5.2	<p>It also recognises a long term liability on the Balance Sheet, described as 'New Tyne Crossing Deferred Income'. This represents the share of the construction costs funded by the Concessionaire, and is written down over the life of the contract.</p>
5.3	<p>This liability is excluded from the Capital Financing Regime because the nature of the Payment Mechanism (i.e. that payments to the Concessionaire are effectively funded by third party tolls) means that it is not a credit arrangement under the Local Government Finance Act. For this reason there is no requirement to make Minimum Revenue Provision on this liability or to include it within TWITA's Prudential Indicators.</p>
<b>6</b>	<b>Next Steps</b>
6.1	<p>Updates on the financial performance of the Tyne Tunnels will be provided to Audit Committee as part of the regular budget monitoring reports.</p>



<b>7</b>	<b>Potential impact on objectives</b>
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7.1	There is no impact on ITA objectives as a result of this report.
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## Tyne and Wear Integrated Transport Authority Audit Committee

### Work Programme

	Details	Meeting 1 July	Meeting 2 Sept	Meeting 3 Feb
	<b>Governance</b>			
1	Review the risk update report		Scheduled	Scheduled
2	Review the Authority's anti-fraud and anti-corruption arrangements			Scheduled
3	Review the draft and final Annual Governance Statement and recommend its adoption to the Authority.	✓	Scheduled	
4	Progress Update on the Annual Governance Statement	✓	Scheduled	Scheduled
5	Review Annual budget and budget monitoring reports for the Authority.	✓	Scheduled	Scheduled
	<b>Audit</b>			
6	Approve Three Year Strategic Internal Audit Plan, including Annual Internal Audit Plan for the following financial year.	✓		Scheduled
7	Consider Internal Audit progress reports covering audits undertaken, recommendations follow up, performance and investigations (if any).	✓	Scheduled	Scheduled
8	Consider Internal Audit Annual Report and Opinion of the Head of audit and Strategic Risk	✓		
9	Consider External Audit Annual Plan	✓		
10	Consider External Audit Progress Report	✓	Scheduled	Scheduled
11	Consider External Audit Inspection Letter			

## Tyne and Wear Integrated Transport Authority Audit Committee

### Work Programme

12	Consider External Audit report on the Annual Accounts – draft and final versions		Scheduled	
	<b>Accounts</b>			
13	Approve the Authority’s accounting policies			Scheduled
14	Review the draft Annual Report and Accounts and then recommend adoption of the final Annual Report and Accounts by the ITA.		Scheduled	
	<b>Governance and Risk Management</b>			
15	Annual Review of the Terms of Reference			Scheduled
16	Agree Annual Report to the Authority			Scheduled

Also, as requested at the July 2012 meeting:

- The Terms of Reference of all committees and working groups of the Authority be circulated to members.
- An update on the Treasury Management would be provided to a future meeting.
- A report on Concessionary Travel be provided to a future meeting.
- Officers would check whether there was information available on the effect of the Localism Act on the levy.