Tyne & Wear ITA - Standards & Audit Committee

Meeting to be held: Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN on Friday 18 March 2011 at 2.00 pm

Membership:
Chair: Mr Scrimshaw
Councillors: Blackburn, Green, McMillan, Stone and P Wood
Independent Members: Mr Atkinson, Mr Clark and Ms Green

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

The agenda, minutes and reports are also available on the ITA website at www.twita.gov.uk

		Page
1.	**Apologies for Absence**	
2.	**Declarations of Interest of Members or Officers in any matter to be discussed at the meeting** (If any Member has a personal/prejudicial interest please complete the appropriate form and hand this to the Democratic Services Officer before leaving the meeting. A blank form can be obtained from the DSO at the meeting). Members are reminded to verbally declare their interest and the nature of it and, if prejudicial, leave where appropriate at the point of the meeting when the item is to be discussed	
3.	**Minutes of the Previous Meeting**	**1 - 8**
4.	**The Future of the Standards Regime - Localism Bill - Chapter 5** Report by the Legal Adviser and Monitoring Officer	**9 - 14**
5.	**ITA Budget 2011/12** Report by the Deputy Clerk and Treasurer	**15 - 44**
6.	**Accounting policies 2010/11** Report by the Deputy Clerk and Treasurer	**45 - 64**

7. Communities and Local Government Consultation on Revision and Consolidation of the Accounts and Audit Regulations 2003 **65 - 68**

Report by the Deputy Clerk and Treasurer

8. Internal Audit Progress Report **69 - 78**

Report by the Head of Audit and Strategic Risk

9. Internal Audit Strategic Plan 2011/12 to 2013/14 (including the Annual Plan 2011/12) **79 - 86**

Report by the Head of Audit and Strategic Risk

10. Whistleblowing, Fraud and Corruption Policy Updates **87 - 102**

Report by the Deputy Clerk and Treasure

11. Risk Management Update

Report by the Clerk

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.

12. Annual Governance Statement 2010/11 and Local Code of Corporate Governance - Process Update **103 - 108**

Report by the Head of Strategy, Planning and Performance, Newcastle City Council

13. Work Programme 2011/2012 **109 - 112**

Report by the Clerk

14. Dates and Time of the Next Meeting

Friday 17 June or Friday 24 June 2011 at 2pm (Members are required to agree a date)

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Tyne & Wear ITA - Standards & Audit Committee

17 December 2010
(2.25 - 3.35 pm)

Present:

Chair: Mr Scrimshaw

Councillors: Blackburn, Green and P Wood

Independent Members: Mr Atkinson and Ms Green

In attendance:

B Rowland - Clerk to the ITA, Newcastle City Council
I Poll - Head of Democratic Services, Newcastle City Council
H Emms - Director of Transportation, Newcastle City Council
H Wilson - Legal Services, Newcastle City Council
K Laing - Finance and Resources, Newcastle City Council
E Goodman - Finance and Resources, Newcastle City Council
I Pattison - Internal Audit, Newcastle City Council
V Miller - Democratic Services, Newcastle City Council
J Ritchie - Deloitte

23. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors McMillan and Stone and Mr Clark.

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

There were no declarations of interest.

25. **MINUTES OF THE PREVIOUS MEETING HELD ON 17 SEPTEMBER 2010**

The minutes of the previous meeting held on 17 September 2010 subject to minor formatting amendments were approved as a correct record and signed by the Chair.

Matters Arising

(a) Annual Report and Accounts 2009/10 and Annual Governance Statement 2009/10

(Minute 17 refers)

- The Chair queried progress in relation to tackling the issue of attendance at the ITA Scrutiny Committee and meeting with the Committee Chair and Vice-Chair. I Poll reported that a contact had been made with a Scrutiny Officer; this issue was still outstanding and needed progressing. **(Action: I Poll and P Woods)**

- In the context of members' attendance at the ITA Committees in general, the Chair queried how councillors were nominated for membership. A member explained that councillors were nominated and appointed by the ITA.

(b) Standards and Audi Committee Self-Assessment of Effectiveness

(Minute 20 refers)

The Chair requested an update on progress in relation to checking members' attendance for the year and raising the issue with the ITA. **(Action: I Poll, V Miller and P Woods)**

(c) Strategic Risk Update

(Minute 21 refers)

Paper copies of the Strategic Risk matrix were available at the meeting.

26. RECENT PUBLICATIONS FROM STANDARDS FOR ENGLAND - CASE REVIEW

Submitted: A report by the Head of Legal Services and Monitoring Officer (previously circulated and copy attached to Official Minutes).

H Wilson presented the report which advised members about the new online edition of the Case Review by Standards for England. It was expected that the downloadable version of the document would soon be available on the Standards for England website.

RESOLVED – That the report be noted.

27. ABOLITION OF THE STANDARDS BOARD REGIME

Submitted: A report by the Legal Adviser and Monitoring Officer (previously circulated and copy attached to Official Minutes).

H Wilson presented the report which advised members about the proposed abolition of the Standards Board regime. She explained that the guidance received from the DCLG had confirmed that:

- the abolition would apply to the whole regime and
- the existing regime would continue to operate until the appointed day following Royal Assent.

She also confirmed that the Localism Bill had been published earlier that week and provided a brief verbal update on the standards provisions in the Bill. A report would be brought to the next meeting.

Amongst the points noted during the discussion were the following:

- There would be a new duty to promote and maintain high standards of conduct.

- Authorities may adopt a voluntary Code of Conduct.

- If an allegation was made that a member had failed to comply with its code of conduct, the authority would have to consider whether it was appropriate to investigate and, if so, investigate the allegation "in such manner as it thinks fit".

- The Secretary of State may make regulations required Monitoring Officers to establish and maintain a publically available register of interests.

- A member would commit an offence if, without reasonable excuse, he/she failed to register a financial or other interest, failed to disclose certain interests before taking part in business, or took part in business contrary to a prohibition/restriction in the regulation. The penalty would be a fine. Where a person was convicted of such an offence, the court would be able to disqualify him/her or up to 5 years. H Wilson would seek clarification on the level 5 fine for the report to the next meeting.

- The grant and supervision of exemptions from political restrictions would no longer be the responsibility of standards committees. The Head of Paid Services would be responsible instead.

- Authorities may be able to establish voluntary standards committees. Such committees would not be able to suspend or disqualify members.

- A member was concerned about the provision regarding co-opted member of standards committees and asked for more information. Members agreed that independent representation was particularly important in a political environment. H Wilson would provide information in the report to the next meeting.

- Chapter 5 of the Localism Bill dealt with standards.

- A member asked about the mechanism that the ITA would be able to adopt for promoting and ensuring the duty of high standards. The member indicated that the ITA Standards and Audit Committee would be best equipped for continuing helping with this responsibility.

- The Chair referred to the work of the Newcastle City Council Standards Committee to lobby the Council to continue the work of the Committee and suggested that the ITA Standards and Audit Committee should take a similar approach and appeal to the ITA. The ITA should consider the continuation of the work of the Committee. Members agreed that the Committee did a lot of useful work, including governance issues and the Code of Conduct, and it was important that this work continued. The Chair asked members to consider the

details of the appeal to the ITA to reflect the case in a strong and coherent manner. The Chair also asked for the next report to have guidance on what the ITA and Standards and Audit Committee could and could not do under the suggested provisions.

- The Chair asked officers to see if there was any information on the approach being taken by the other ITAs.

- The Chair emphasised that it was important that representatives of the Committee were invited to the appropriate meeting of the ITA, ensuring that there was no decision taken on the future of the Standards and Audit Committee without its members' involvement in the discussion.

- I Pattison indicated that the abolition of the Standards and Audit Committee would go against the recommendations of the Internal Audit.

- Until the appointed date following Royal Assent, the Committee should continue functioning as normal.

RESOLVED – That:

(i) a report on the implications of the Localism Bill (so far as it relates to standards) be provided to the next meeting **(Action: H Wilson)**;

(ii) members would consider the reasoning for appealing to the ITA to enable the Committee to continue its work **(Action: members)**;

(iii) arrangements be made to ensure that representatives of the Committee were invited to the relevant meeting of the ITA where the decision about the future of the Committee was to be made **(Action: V Miller)**.

28. **2011/12 BUDGET UPDATE**

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

K Laing presented the report which advised members about the progress of the 2011/12 budget setting process for the ITA and Nexus.

Amongst the points noted during the discussion were the following:

- Good progress was achieved in reviewing all Service Level Agreements (SLAs), including services provided by Legal Services, Democratic Services, Financial Services, Transport Policy Section, Management and Internal Audit and Risk.

- Although pension costs were a largely fixed historical liability, there were some opportunities to reduce them through possibly a longer re-payment period. If appropriate, a proposal would be made to the ITA following the receipt of the actuarial valuation results.

- B Rowland and H Emms explained the rationale behind the suggested split in the reduction in the base levy over the next two years, indicating that this strategy could help to protect the front line services and provide time for the development of the Quality Contact Scheme proposals. It was confirmed that it would be for the ITA to consider the proposals and make a decision once a business case had been drawn up. If this was agreed, the next steps would be to consider the potential business case and the risks and costs associated with the implementation of a scheme, and on what basis it could be carried forward. There were other alternative routes that could be taken forward, such as Voluntary Quality Partnerships where partners came together on a voluntary basis, as already happened in other authorities. This might be considered as an alternative option but would have to be estimated as to its effectiveness and value for money. The Chair asked for the Committee to be kept informed about progress **(Action: P Woods)**.

- It was clarified that legislation allowed for Quality Contracts to be used where the transport network structure was not fit for purpose and, as a result, the whole network in a specific area could go through a procurement mechanism. This would drive cost efficiencies and improve competition.

- The ITA would also benefit from the Quality Contract Scheme.

- Whilst the proposed reduction for each of the first two years was 5%, this was a 5% on the total budget, which included a high proportion of fixed and statutory costs for both the ITA and Nexus. Therefore, a 5% reduction would mean significant cuts in the discretionary elements of the budget.

- Positive comments were expressed in relation to the progress on the budget setting process.

- B Rowland was pleased to report that funding had now been received on the Concessionary Travel formula.

RESOLVED – That:

(i) the report and progress made on the budget setting process be noted;

(ii) further updates on the budget setting process be brought to the Committee **(Action: P Woods)**;

(iii) further updates on the progress in relation to the Quality Contract Scheme proposals be brought to the Committee **(Action: P Woods and H Emms)**.

29. **REVENUE BUDGET MONITORING AND TREASURY MANAGEMENT UPDATE**

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

K Laing presented the following reports which had been presented to the ITA in November 2010:

- Revenue Budget Monitor April to October 2010
- Treasury Management and Investment Strategies Update

He provided the following updates:

- Based on expenditure to date and known commitments, it was expected that the outturn at the year end would be within budget.

- The Supplies and Services were marked as “amber” due to spend being slightly higher than profiled.

- Payments to TT2 was marked as “amber” due to one payment to TT2 being outstanding at the time of the preparation of the report. That payment had subsequently been made.

- The current interest rate on loans was 4.3%.

- The current interest rate on investments was 1.1%.

- The ITA previously had £20m invested in various institutions. As these investments came to an end they had not been replaced. Due to current low interest rates being achieved on investment, the strategy was to repay debt rather than taking out new investments. The ITA took a cautious approach and invested only in a selection of institutions as in Appendix 1 to the Treasury Management and Investment Strategies Update Report.

RESOLVED – That the report and financial position as at 31 October 2010 be noted.

30. **INTERNAL AUDIT PROGRESS REPORT**

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

I Pattison presented the report which advised members about the findings of Internal Audit as part of regular performance monitoring, and the position in relation to the implementation of audit recommendations.

In response to the Chair’s question, I Pattison explained that the outstanding recommendation in relation to agreeing an updated partnership agreement covering the provision of fund management services by the ITA on behalf of Nexus was a long standing issue. He clarified that this was about an SLA to provide treasury management for Nexus and confirmed that this matter was progressing. The other outstanding recommendation related to agreeing a protocol for the production of the annual governance statement, which was currently being finalised.

In response to the Chair’s question, I Pattison confirmed that Internal Audit had sufficient budget to continue the audit functions in this financial year.

In responding to a member's question about the results of the ITA Standards and Audit Committee members' satisfaction survey, I Pattison indicated that he would follow this up and report at the next meeting **(Action: I Pattison)**.

RESOLVED – That the report be noted.

(a) **Annual Audit and Inspection Letter 2009/10**

Submitted: A report by the ITA Deputy Clerk and Treasurer (with the permission from the Chair due to the timetables involved, circulated at the meeting and copy attached to Official Minutes).

The Committee noted the circulated Annual Audit and Inspection Letter 2009/10 which gave an unqualified audit opinion and some relatively minor recommendations.

The Chair asked for more information on the Nottingham Declaration of Climate Change, which had been signed by the ITA in September 2009 **(Action: I Pattison)**.

The Chair on behalf of the Committee expressed thanks to the officers from the Audit Commission and wished them well in the future. The Chair asked for the address for the local office of the Audit Commission so that he could write a letter of thanks.

RESOLVED – That:

(i) the report be received and noted;

(ii) information be provided on the Nottingham Declaration of Climate Change, which had been signed by the ITA in September 2009;

(iii) the address for the local office of the Audit Commission be provided to the Chair **(Action: P Wood and I Pattison)**.

31. **STANDARDS AND AUDIT COMMITTEE - MEMBERS SKILLS' ASSESSMENT**

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

I Pattison presented the report which reminded members about the progress of the self-assessment process and invited comments and recommendations. Members were also invited to fill in the Assessment of Skills and Experience form and agree the timescale for the completion of the skills assessment review.

A member suggested that the skill assessment review should only apply to the independent members. The Chair explained that this was a voluntary process aimed at helping all members of the Committee to enhance their skills; he hoped that everyone would agree to participate.

In response to a member's question, it was confirmed that members should identify what skills they would like to acquire, enhance or develop and fill in the attached form.

Officers would then be able to cross reference this information and identify what suitable training was available **(Action: All members and I Pattison)**.

A member suggested that she would benefit from training on the role of Nexus.

RESOLVED – That:

(i) the report and members' comments be noted;

(ii) members would review their skills and fill in the attached form, on a voluntary basis.

32. **DATES AND TIME OF THE NEXT MEETING**

Friday, 18 March 2011 at 2pm.

Tyne and Wear Integrated Transport Authority

ITA STANDARDS AND AUDIT COMMITTEE 18 MARCH 2011

TITLE: **THE FUTURE OF THE STANDARDS REGIME – LOCALISM BILL – CHAPTER 5**

REPORT OF: **THE LEGAL ADVISER AND MONITORING OFFICER**

District Implications - all

1. Purpose of the report

1.1 This report updates the Committee on the provisions relating to the standards regime in the Localism Bill.

2. Recommendation

2.1 The Committee is recommended to note this report.

3. Introduction and background

3.1 The Committee received a report on the Government's proposed abolition of the Standards Board regime at its meeting on 17 December 2010. At the time of writing that report, the Government's planned Decentralisation and Localism Bill had not been published.

The relevant Bill (now called the Localism Bill) was presented to Parliament on 13 December. The Committee was therefore given a brief verbal update on Chapter 5 of the Bill and advised that officers would bring a fuller report to this meeting.

3.2 The Government has published an Impact Assessment, "Localism Bill: the abolition of the Standards Board regime, clarification of the law on predetermination and the requirement to register and declare interests." In that, the Government states "*The power to judge councillors' behaviour has been taken away from the electorate, undermining democratic accountability at taxpayers' expense, through the system for assessing and investigating complaints about the conduct of members of over 10,000 authorities."* It also says that the current *"Code of Conduct regime has encouraged frivolous and malicious complaints, all of which have to be assessed by standards committees that authorities are required to maintain… Over 6,000 complaints*

were received between May 2008 and the end of March 2010, but after assessment, only 28 per cent were recommended for investigation."

The Government therefore "*wishes to decentralise power to authorities by allowing them to decide how their members should conduct themselves and what is best for their electorates*." However, it states: "*To ensure that high standards of conduct are maintained generally and to provide transparency, the current requirement to register and declare interests will be retained and there will be a new criminal offence for deliberate failure to comply with the requirement to register and declare interests*". The Government expects that the introduction of this new offence will "*have a greater deterrent effect than existing sanctions".*

4. The Localism Bill – Chapter 5

4.1 The main provisions relating to standards are contained in chapter 5 (and Schedule 4) of the Bill. These can be summarised as follows:

4.1.1 **The current standards regime,** overseen by the Standards Board for England, **will be abolished**. This is achieved by amending the Local Government Act 2000. For example, this means there will be:

- no model code of conduct
- no duty to adopt a code of conduct
- no statutory standards committees
- no Standards Board
- no local assessment

The abolition arrangements also affect the First-tier Tribunal (Local Government Standards in England) as it will lose its jurisdiction over the conduct of local authority members.

Any existing code of conduct adopted by a relevant authority will cease to have effect. Any undertaking to comply with that code will then also cease to have effect.

The Authority's Code of Conduct for Members, adopted in May 2007, will therefore cease to have effect.

4.1.2 A Relevant Authority will be under a **duty to promote and maintain high standards of conduct** by its members and co-opted members. The reference to co-opted members here is a reference to voting co-optees.

"Relevant authority" is defined to include a joint authority established by Part 4 of the Local Government Act 1985.

Thus, the duty will lie with the relevant authority and not standards committees.

4.1.3 A relevant authority may adopt a **voluntary code of conduct** dealing with the conduct expected of its members (and voting co-optees) when they are acting in that capacity.

To do this, it may revise its existing code, or adopt a completely new one.

The authority may publicise what it has done about the code in any manner it considers appropriate.

The adoption, revision or withdrawal of a voluntary code must be done by the relevant authority as a whole (ie by the full ITA and not by a committee).

Members may be interested to note that in the Committee Stage, a proposed amendment to change the voluntary code to a mandatory one was defeated.

4.1.4 Where a relevant authority has adopted a code, if a written allegation is made that a member has failed to comply with it, the authority must:
(a) consider whether it is appropriate to investigate, and
(b) if so, investigate the allegation "in such manner as it thinks fit".

If it finds a member has failed to comply with its code it may have regard to the failure in deciding:
(a) whether or not to take action, and
(b) what action to take.

However, whilst authorities will have discretion to adopt a voluntary code, and will then have a duty to consider alleged breaches of it, there are no statutory sanctions proposed in the Bill.

In its Impact Assessment, the Government says that authorities will "be free to retain their standards committees or introduce another system for investigating complaints about conduct of their members."

The position with regard to independent members on such voluntary standards committees is not clear.

At the moment, section 53(8) of the Local Government Act 2000 specifically provides that independent members on standards committees have voting rights. However, the Bill proposes repeal of that subsection.

Generally, co-optees on ITA committees do not have voting rights, except on advisory committees. This would suggest that if an authority does decide to have a standards committee which is more than an advisory one, any independent members on it would be unable to vote.

It was unclear therefore whether this is a drafting oversight or it is envisaged that any future standards committees will only have an advisory role. The Head of Corporate Law wrote to Standards for England to seek clarification of Government intentions in this regard. Standards for England have advised it is their understanding that "this is a deliberate policy intention rather than a drafting error, as it is the Government's view that, except where there is criminal offence, councillors should only be able to be held to account either by fellow politicians, their political party or else by members of the public through the ballot box".

The Head of Corporate Law has therefore written to Communities and Local Government direct.

4.1.5 **Disclosure and registration of members' interests**

Regulations issued by the Secretary of State may require the Monitoring Officer of a relevant authority to establish and maintain a register of interests of members and co-opted members of the authority.

Those Regulations may:

- specify the financial and other interests to be registered
- require a member with a specified kind of interest to disclose it before taking part in business
- prevent or restrict the participation of a member in business to which a specified interest relates
- provide for a relevant authority to grant dispensations in specified circumstances
- make provision for the sanctions a relevant authority may impose for failure to comply with the regulations
- require the relevant authority to make copies of the register available to the public.

The sanctions referred to here do not include provision for suspension or disqualification.

4.1.6 **Offence of breaching the Regulations**

A member will commit an offence if, without reasonable excuse, he/she:

(a) fails to register a financial or other interest,
(b) fails to disclose a specified interest before taking part in business of the authority, or
(c) takes part in business to which an interest relates contrary to a prohibition or restriction in the Regulations.

The penalty will be a fine not exceeding level 5 on the standard scale. (The current maximum is £5,000).

Where a person is convicted of such an offence, the court may disqualify him/her for being or becoming a member for up to 5 years.

The time limit for prosecutions is 12 months from when the prosecutor decides there is sufficient evidence to support a case, but no later than 3 years from when the offence occurred.

Investigating and prosecuting these types of offences will therefore be the responsibility of the police and criminal courts respectively.

4.1.7 Transitional provisions will be made by secondary legislation. These will regulate how any outstanding complaints made under the current code are dealt with after the new provisions come into force.

5. **General observations**

5.1 It is not yet clear how some of these matters in the Bill will be dealt with in practice.

5.2 Various commentators have expressed their reservations about its provisions on standards. Some are concerned that despite the duty to promote and maintain high standards, without a national code of conduct, it will be difficult for councillors and the public to judge what is, and what is not, acceptable behaviour and that leaving it up to each authority to decide whether to have their own code (and if so, what it should contain) risks creating confusion.

For example, reacting to the publication of the Bill, Sir Christopher Kelly, the chairman of the Committee on Standards in Public Life, criticised the proposed new regime and warned that it risks creating lower standards and a decline in public confidence. He criticised the lack of a national code and an independent complaints mechanism.

The Association of Council Secretaries and Solicitors said it welcomed any simplification and streamlining of the present regime, but felt that the Bill's conduct proposals were "so permissive as to be practically ineffective." It therefore recommended a national code of local government conduct (similar to that which existed before the arrival of the present regime) and principles of public life applicable to all councillors.

5.3 The Government states that, as a result of the proposed changes, "local and other authorities will gain the power to decide how best to promote standards of conduct of their elected members".

As acknowledged by the Government in its Impact Assessment, it is likely that, in the interests of upholding standards of conduct, authorities will retain at least some aspects of the local standards framework. Not doing so would risk "creating an impression amongst local citizens that the authority is not properly committed to upholding standards of conduct of its members".

The Authority will therefore need to consider, in due course, how best to comply with the duty to promote standards.

5.4 As previously mentioned, whilst authorities will still be able to adopt a voluntary code, and will have a duty to consider alleged breaches of it, no statutory sanctions are proposed.

In this respect, the Government says in its Impact Assessment that *"In deciding the appropriate punishment for verdicts of misconduct, authorities will be constrained by their existing statutory powers".* It goes on:

"The risks related to the register of interests will be mitigated by the new requirement for councillors to register and declare interests and the new criminal offence… Other risks will be mitigated in part, where they are serious enough to involve slander or libel, by the laws of defamation enforced in the civil courts. Risks arising from breaches relating to failures to declare personal or prejudicial interests and using the position to confer an advantage or disadvantage for oneself or others…will be mitigated by the proposed new criminal offence."

As for breaches relating to bullying or disclosing confidential information, the Government suggests authorities can put procedures in place to minimise these risks, eg by having a Member/Officer Relations Protocol and through

training.

It *"believes that existing legal frameworks already provide remedies for the most serious types of 'misconduct' eg fraud, breaches of the equalities legislation, slander or libel. In addition, section 80 of the Local Government Act 1972 already provides for councillors to be disqualified if they receive a criminal conviction with a sentence of 3 months or more. Section 80 is to be reviewed to capture any other types of unethical conduct that are considered serious enough to justify disqualification from office."*

The outcome of this proposed review of section 80 will be interesting.

5.5 The detail of the interests to be disclosed and registered by members will not be clear until the Regulations are available.

During the debate in the Public Bill Committee on 3 February, the Parliamentary Under-Secretary of State for Communities and Local Government indicated the draft regulations would be produced as soon as practicable for consultation. He indicated "*that it would be quite surprising if the result of the circulation of the draft and the consultation was not a set of requirements that were, broadly speaking, identical to what we currently have*".

5.6 The provisions of the Bill could change quite substantially during its passage through Parliament.

Officers therefore suggest it is premature to try to consider how to deal with a new regime until the legislative process is further advanced.

The Government have indicated the Bill would likely receive Royal Assent "in late 2011" and that the present conduct regime would continue to function until a fixed date, "probably two months after … Royal Assent".

At the time of writing this report, the Bill is in the Committee Stage in the House of Commons.

6. Background papers

List of Background Papers:- held by Head of Corporate Law on file XPA00007

1. Localism Bill
2. DCLG – Impact assessment- "Localism Bill: the abolition of the Standards Board regime, clarification of the law on predetermination and the requirement to register and declare interests"
3. Hansard – Public Bill Committee Debate – 3 February 2011

7. Contact officer

Helen Wilson, Solicitor, ext 25110, helen.p.wilson@newcastle.gov.uk

Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

DATE:	**18 March 2011**
TITLE:	**ITA Budget 2011/12**
REPORT OF:	**Deputy Clerk and Treasurer to the ITA**
	Not confidential
	District Implications - all

1. Summary / Purpose of Report

1.1 The purpose of this report is to update the Standards and Audit Committee on the 2011/12 Budget, as agreed by the ITA at its meeting on 27 January 2011.

1.2 The full Financial Strategy report as agreed by the ITA is appended to this report.

2. Recommendations

2.1 Standards and Audit Committee is asked to receive this report for information.

3. 2011/12 ITA Budget

3.1 At its meeting on 18 November, the Standards and Audit Committee received a report for information on the draft budget proposals for 2011/12. The Committee asked to be updated on these proposals as they progressed.

3.2 At its meeting on 27 January, the ITA agreed the budget report, and agreed to set the levy at an amount of £71,130,056, contingent upon confirmation of a capital contribution from the districts in lieu of a transfer of historic debt; or £73,792,416 if this capital contribution was not agreed.

3.3 Subsequent to this meeting, it was agreed that the levy would be set at the

higher level, since two of the five Tyne and Wear authorities did not wish to proceed with the proposal.

3.4 The management of this historic debt therefore remains with the ITA, with a corresponding amount for financing charges continuing to be passed to the districts through the levy.

3.5 Updated pensions figures following the actuarial valuation were not available in time for the production of the budget report in January, so the previous figures were continued. The actuarial valuation has subsequently been completed, with figures for the past service deficit amounts coming in lower than the previous figures, with a slightly extended repayment period.

3.6 The pension deficit was valued at £12.2m, compared with the FRS 17 valuation of a £15.4m deficit reported in the 2009/10 Annual Accounts.

4. Further comments by the:

- **Clerk** none
- **Treasurer** see main report
- **Legal Advisor** none
- **Director General** none

5. Background Papers

5.1 2011/12 Budget Working Papers

6. Contact Officer (s)

6.1 Eleanor Goodman 0191 277 7518

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Tyne and Wear Integrated Transport Authority

Date:	**27 January 2011**
TITLE:	**FINANCIAL STRATEGY 2011/12 – 2013/14**
REPORT OF	**DEPUTY CLERK AND TREASURER, ITA and DIRECTOR OF FINANCE AND RESOURCES, NEXUS**
	District Implications: All Districts

1 Summary/Purpose of Report

1.1 This report sets out the Budget and Levy requirements for the ITA in 2011/12 and indicative funding requirements for 2012/13 and 2013/14.

1.2 The Authority is asked to consider the draft Budget for 2011/12; to set its levy for 2011/12 at £71,130,056. This represents a reduction of 5% from 2010/11, with an upward adjustment of £5,671,999 for the transfer back of Concessionary Fares grant now paid directly to the Districts through formula grant. It also includes a potential further reduction of £2,662,360 in respect of capital financing charges relating to a transfer of debt responsibility to the Districts (who do in fact currently receive the Government grant to finance the debt), which will be achieved by way of a capital contribution from the Districts in lieu of a transfer of actual debt. This puts the responsibility for funding debt in the right place with those receiving the grant for it; reduces the ITA's budget and results in some financial saving for the districts in 2011/12. This levy reduction is however subject to confirmation of the capital contribution from all five districts and if the capital adjustment is not agreed, the levy will be £73,792,416. The Authority is also asked to agree a Revenue Grant of £70,323,250 to Nexus for 2011/12.

2 Recommendations

2.1 The Authority is recommended to:

(a) Approve the ITA and Nexus Revenue Budgets for 2011/12 (Appendix A and B refers);

(b) Approve a levy of £71,130,056 for 2011/12, provided that confirmation of the capital contribution to enable the debt adjustment is received, or £73,792,416 in the event that the debt financing adjustment is not agreed by all 5 districts;

i) The levy to be apportioned between the five District Councils in accordance with The Transport Levying Bodies Regulations 1992 made under the Local

Government Act 1988, which uses the 2009 mid-year population estimates as the basis of the levy allocation, as set out in section 5.2; and

ii) The Districts to pay in twelve equal instalments, each instalment to be received by the Treasurer to the ITA on or before the last working day of each month;

iii) The lower levy of £71,130,056 to be contingent on the ITA receiving capital contributions from the five Tyne and Wear Districts equivalent to the value of debt held by the ITA, for which the districts receive grant support directly from the Government. If this confirmation is not received in writing by all 5 districts by 7th February 2011, the Levy will be set at the higher level of £73,792,416 and notified to the Districts;

(c) Approve the amount of Revenue Grant to Nexus of £70,323,250 from the levy for 2011/12; and

(d) Approve the minimum revenue provision repayments for borrowed capital expenditure for 2011/12 (attached at Appendix C).

3 Background

3.1 When the 2010/11 ITA levy was agreed, the ITA limited the increase to 1.5% and the medium term plan sought to achieve a cash limited levy for future years. In view of the cuts in council funding announced in the 2010 Spending Review and the proposed 2011/12 to 2012/13 Revenue grant Settlement, the 2011/12 Budget is being prepared on the basis of absorbing cost pressures and achieving a levy reduction of 5% in 2011/12; a further 5% reduction in 2012/13, with a cash freeze in the levy in 2013/14. The reduction in levy income is to be split equally between Nexus and the ITA, i.e. both the Nexus grant and the ITA budget contribution from the levy will be reduced by 5%.

3.2 Two additional adjustments have been made to the levy in 2011/12 which are different to previous years:

- Concessionary Travel grant which was previously paid direct to the ITA will from 2011/12 be included in the Formula Grant paid to Tyne and Wear district councils. This amount has been included in the levy so that it continues to be received by the ITA and Nexus to fund concessionary travel costs (see section 8 for more details); and

- A further reduction has been made in the levy (over and above the 5% cut) to take into account a capital contribution made to the ITA by the Districts in lieu of a transfer of supported borrowing debt. This proposal is explained further at section 6.5.

3.3 This report sets out details about the first two years of the three year budget strategy.

3.4 The Comprehensive Spending Review (CSR) announced on 20 October 2010 gave

national headline resource totals for the four years from 2011/12 to 2014/15, with a significant frontloading of funding cuts in 2011/12. On 13 December, the Department for Communities and Local Government (DCLG) issued detailed grant figures for local authorities for the first two years of this period 2011/12 to 2012/13. The figures are published for consultation with a response date of 17 January. A note on the settlement is attached at Appendix D.

3.5 The overall settlement is complex because of the removal, transfer and simplification of many grants including the concessionary fare grant of £5.7m that the ITA and Nexus currently receive. The key issues for the ITA were the grant implications for the 5 district councils and more specifically the impact of the significant changes that the Government was making to the funding for concessionary fares. The outcome of the concessionary fare formula changes is a positive, with the Government choosing to create a separate sub block and a basis of distribution that the ITA lobbied for. The outcome will enable the district councils to pass back the funding of £5.7m to the ITA through an addition to the levy for 2011/12 to compensate for the transfer of the funding of the concessionary responsibilities to the district councils. However, the pressure on individual districts is considerable with funding reductions averaging -11.4% in 2011/12 and -7.9% in 2012/13.

3.6 Given the very tight financial settlement the level of the reduction in the levy for the ITA reflects the high priority being given to transport services by the district councils in Tyne and Wear.

4 Financial Position in the Current Year 2010/11

4.1 Forecast expenditure, revenue and grant levels in 2010/11 indicate that the latest anticipated net spending of the ITA itself will be £0.104m less than the original level of the budgeted resources available for the year. This is due to savings in the capital financing charges for 2010/11 of £0.065m, additional income on revenue balances of £0.025m and savings in other areas of £0.014m. These savings have reduced the amount of reserves required to support the levy in 2010/11 from an original estimate of £0.781m to £0.678m.

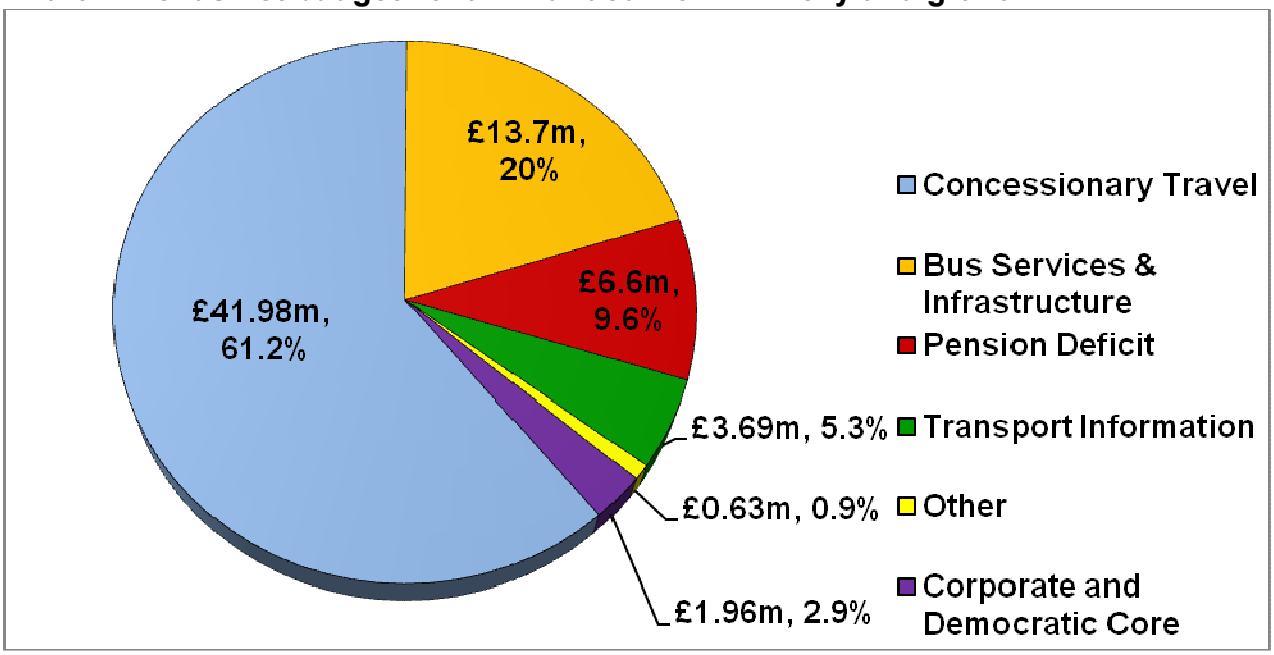
4.2 The grant provided to Nexus by the ITA in 2010/11 amounts to £68.555m, made up of the Levy contribution of £68.055m and a £0.500m contribution from ITA reserves and will be unchanged from the agreed grant at the start of the year.

Nexus' (original) gross expenditure requirement for 2010/11 was £159.95m. External income (mainly commercial fares in relation to Metro and Secured bus services) equates to £55.76m, which together with grant income (mainly in relation to Metro and Concessionary Travel) mean that the demand on the ITA (the levy) equates to £68.56m in 2010/11. The following Table 1 identifies the services that Nexus provides and how they are currently funded – showing Gross Cost, Gross Income, Grant Income and the ITA Grant. Chart 1 shows the relative share of costs.

Table 1: How the Nexus budget is constructed and financed

	Gross Costs £m	Gross Income £m	Grant Income £m	ITA Grant £m
Metro (excl share of pensions deficit & CDC)	67.68	-41.90	-25.11	0.67
Concessionary Travel	49.45	-1.80	-5.67	41.98
Bus Services and Infrastructure	20.36	-6.17	-0.49	13.70
Pensions Deficit	6.60	0.00	0.00	6.60
Transport Information	5.29	-1.60	0.00	3.69
Northern Rail	4.36	0.00	-4.36	0.00
Ferry	1.42	-0.46	0.00	0.96
Revenue Contribution to Capital	2.83	0.00	0.00	2.83
Corporate & Democratic Core Costs	1.96	0.00	0.00	1.96
	159.95	**-51.93**	**-35.63**	**72.39**
Financing Income	0.00	-3.83	0.00	-3.83
	159.95	**-55.76**	**-35.63**	**68.56**

Chart 1: Nexus net budget 2010/11 funded from ITA levy and grant



4.3 In terms of the services that Nexus provides, the primary recipient of the ITA levy is Concessionary Travel which, at £41.98m in 2010/11, requires over 61% of the levy in order to sustain the reimbursement of operators under the scheme. Although Metro is the single biggest service that Nexus provides (in terms of gross expenditure) and it benefits all of the districts within Tyne and Wear, it receives a fairly small proportion of its annual funding from the levy. While the direct contribution is only £0.67m, once an allocation of the pension deficit payment and corporate and democratic core costs are factored in, Metro receives around £5m of funding from the levy which equates to around 7% of the levy.

4.4 In terms of the Nexus estimate, the outturn forecast for 2010/11 indicates that there will be a surplus of £0.969m, due to a combination of efficiency savings and additional income being generated in year and this will be used in 2011/12 to help accommodate the reduction in the levy next year.

5 The ITA Levy

5.1 Each year the ITA receives income from a transport levy on each of the five District Councils in Tyne and Wear. In previous years the levy has been increased each year by an agreed uplift to help fund the cost of providing transport services and for additional grant that that District Councils receive to help fund new burdens and responsibilities that the ITA/Nexus have to meet.

5.2 The following table shows the current levy for 2010/11, the restated base levy applying the 2009 ONS Population estimates for 2009 and the proposed levy for 2011/12, after applying a 5% reduction, an upward adjustment for Concessionary Travel grant now paid directly to the districts detailed in section 8, and a further reduction for the debt transfer proposal detailed in section 6.5.

Table 2: ITA Levy 2010/11 and 2011/12

	2010/11 Levy £	Restated Levy for 2010/11* £	5% reduction £	Adjustment for Concessionary fare grant	Adjustment for debt transfer proposal	Total for 2011/12
Gateshead	12,499,640	12,365,734	(618,287)	978,143	(459,127)	12,266,463
Newcastle	17,942,821	18,425,462	(921,273)	1,457,474	(684,119)	18,277,544
North Tyneside	12,939,030	12,780,517	(639,026)	1,010,953	(474,528)	12,677,917
South Tyneside	9,942,001	9,877,033	(493,852)	781,284	(366,724)	9,797,741
Sunderland	18,382,210	18,256,956	(912,848)	1,444,145	(677,862)	18,110,391
Total	**71,705,702**	**71,705,702**	**(3,585,285)**	**5,671,999**	**(2,662,360)**	**71,130,056**

* The distribution of the levy between the Tyne and Wear Districts is based on population

estimates and there were changes between the population estimate for 2008 used to calculate the 2010/11 levy and the 2009 population estimates used to calculate the 2011/12 levy. The 'Restated levy for 2010/11' in the above table reflects the 2009 ONS population estimates. This increase in the population in Newcastle means that it funds a larger share of the levy and receives a lower % reduction in 2011/12 when compared with the 2010/11 levy. The percentage reduction for the other districts is more than 5% as a result.

6 ITA Budget Proposal for 2011/12

The ITA's Own Retained Budget

6.1 The ITA's costs for 2011/12 will potentially reduce from £3.932m to £0.987m, a total reduction of £2.945m, made up of the debt charge reduction of £2.662m plus other savings of £0.283m. This has been achieved through a thorough review of ITA costs over the four main spend areas:

- ITA support costs
- ITA members and governance
- Pension costs
- Financing costs

Details are included in Appendix A.

ITA Support Costs

6.2 Newcastle City Council provides support to the ITA through Service Level Agreements (SLAs), which include Management Support, Legal Advice, Financial Services, Audit and Risk, Administration of the Democratic Process, Scrutiny Support and Policy Advice. All of the current SLAs have been reviewed to achieve efficiency savings and ensure they provide even better value for money. Savings of 12% or £0.042m have been included in the budget for 2011/12, with more details provided in Appendix A.

In the longer term, work is under way to determine the best future operating model for the way support is provided to both the ITA and Nexus. The model of provision will be reviewed by considering examples from other regions and best practice models, and this may enable some further savings to be made in future years.

ITA Members and Governance

6.3 All areas of spend on items such as printing, publishing notices, the number of meetings of the ITA and its various working groups and LGA subscription payments have been considered. Initial savings of £0.020m have been identified. Specifically, these savings have been made on the external audit fee (£0.014m), the website charges payable to Nexus (£0.012m); with additional savings on the budget for scrutiny committee and reductions in the budget for printing and accommodation, as working groups will be held

less frequently where appropriate.

Work will continue in 2011/12 on reviewing areas such as the LGA subscription payments and members' allowances, where it is hoped that savings can be achieved in future years.

Pension Costs

6.4 The ITA currently makes payments to reduce the pension deficit in respect of pensions for former Busways' employees, with no current employees. Results of the triennial actuarial review for the ITA have not yet been released and so the budget proposals have had to assume that the current level of deficit payments will continue. However, it is thought likely that if the deficit has not substantially increase it will be possible, with the agreement of the Tyne and Wear Pension Fund, to extend the repayment period. This could achieve a saving which would reduce the reliance on reserves to bridge the funding gap. We are expecting to hear about the pension contribution shortly and I will update members on the position at the meeting.

Capital Financing Costs

6.5 Capital financing costs make up a significant proportion of the ITA revenue budget. Some savings on financing charges have been achieved in 2010/11 and 2011/12, which are reflected in savings of £0.208m in the (pre adjusted) budget for 2011/12 of £2.662m.

6.6 There is an option for a substantial reduction in the ITA levy if districts agree to a transfer of equivalent debt, which could produce a real net revenue saving for districts in 2011/12 and further revenue savings of 4% or more each year in future years. The reduction in the Levy for the ITA would mainly be presentational, with the reduction in levy matched by a reduction in capital financing costs, with an overall reduction in the debt managed by the ITA in future years. While the ITA holds supported debt and capital financing charges at a county-wide level, the Revenue Formula Grant received to fund the debt is paid directly to each of the districts. The formula grant calculation is currently based upon an interest rate of 5.4% (which will reduce in 2011/12 to 5.1%), whereas the ITA pool rate of interest is 4.2%.

6.7 The opening debt at 1 April 2011 would be £31.908m. The levy could be reduced by £2.662m if the districts received a transfer of the Capital Financing Requirement from the ITA and there was the equivalent of a debt transfer. Because the ITA has a new borrowing requirement for works to the New Tyne Crossing in excess of £31.9m, no existing debt transfer to the districts need take place, which would if required be a complicated exercise to carry out. Instead, a capital contribution could be made by each district in the first week of April 2011, which could be financed as districts determine, either from revenue reserves, from capital receipts or from borrowing at a lower interest rate if districts choose to do so, achieving some interest saving. In addition, there would be no Minimum Revenue Payment (repayment of principal) to be made in 2011/12. In future years Districts would automatically receive the benefit from the 4% annual reduction in capital financing costs as debt is reduced over time, without the uncertainty

of whether it would be reflected in the levy reduction or not. The reduction in the levy by the ITA for this debt would be permanent.

6.8 The capital contribution required from each District and the saving in Levy for each District is summarised below:

	Levy Reduction	Capital Contribution
	£	£
Gateshead	459,127	5,502,621
Newcastle	684,119	8,199,136
North Tyneside	474,528	5,687,196
South Tyneside	366,724	4,395,176
Sunderland	677,862	8,124,153
	2,662,360	31,908,282

6.9 The ITA will effectively use the capital contribution to fund capital expenditure on the New Tyne Crossing instead of borrowing new debt, and existing debt of £31.908m will be assigned to the tunnel and funded by toll income. This will give the tunnel certainty over the level of borrowing charges, which will be less than the interest rates assumed in the financial model for the New Tyne Crossing.

6.10 The equivalent debt transfer and levy reduction can only be carried out if all five districts agree in writing to the capital contribution before the levy notification has to be sent to each district. It is proposed that a deadline of 7 February be set for confirmation of the contributions to the ITA.

Tyne Tunnel Operating Costs

6.11 The Tyne Tunnel trading account reflects the costs of operating the tunnel with the concessionaire. All the costs will be funded from toll income and existing reserves. Toll income in 2010/11 is forecast to be slightly higher than budgeted, and in 2011/12 is projected to increase in line with the New Tyne Crossing model.

6.12 Capital expenditure on the New Tyne Crossing will continue in 2011/12, with construction contributions being made to the concessionaire. The capital costs will be met from prudential borrowing and potentially capital contributions from the Districts as discussed in section 6.5 above.

6.13 The revised budget for 2010/11 and the budget for 2011/12 include an accounting adjustment that is required under the move to International Financial Reporting Standards (IFRS). Under IFRS, any PFI or similar arrangements have to be accounted for under

International Financial Reporting Interpretation Committee 12 (IFRIC 12). The New Tyne Crossing partnership is considered to be such an arrangement, and this has resulted in changes to the treatment of interest on finance lease and the usage payment. There is no change in cash terms, although this does affect Tyne Tunnel reserves.

ITA Reserves

6.14 In setting the budget for 2010-11, £0.781m of ITA reserves were used in order to restrict the levy increase to 1.5% and to provide an additional contribution of £0.5m to Nexus. This additional contribution ceases from 2011/12, however the budget proposals put forward in this report also recommend temporary use of reserves in order to bridge the gap while longer-term savings proposals are developed and implemented. Use of reserves in 2011/12 included in these budget proposals is £0.180m, which is less than in 2010/11 due to the efficiency savings that have been achieved. The effect of this will be to reduce ITA unearmarked reserves to £2.4m at the end of 2011/12. The Deputy Clerk and Treasurer considers a prudent working level of reserves to be £1m.

7 Nexus Budget Proposal for 2011/12

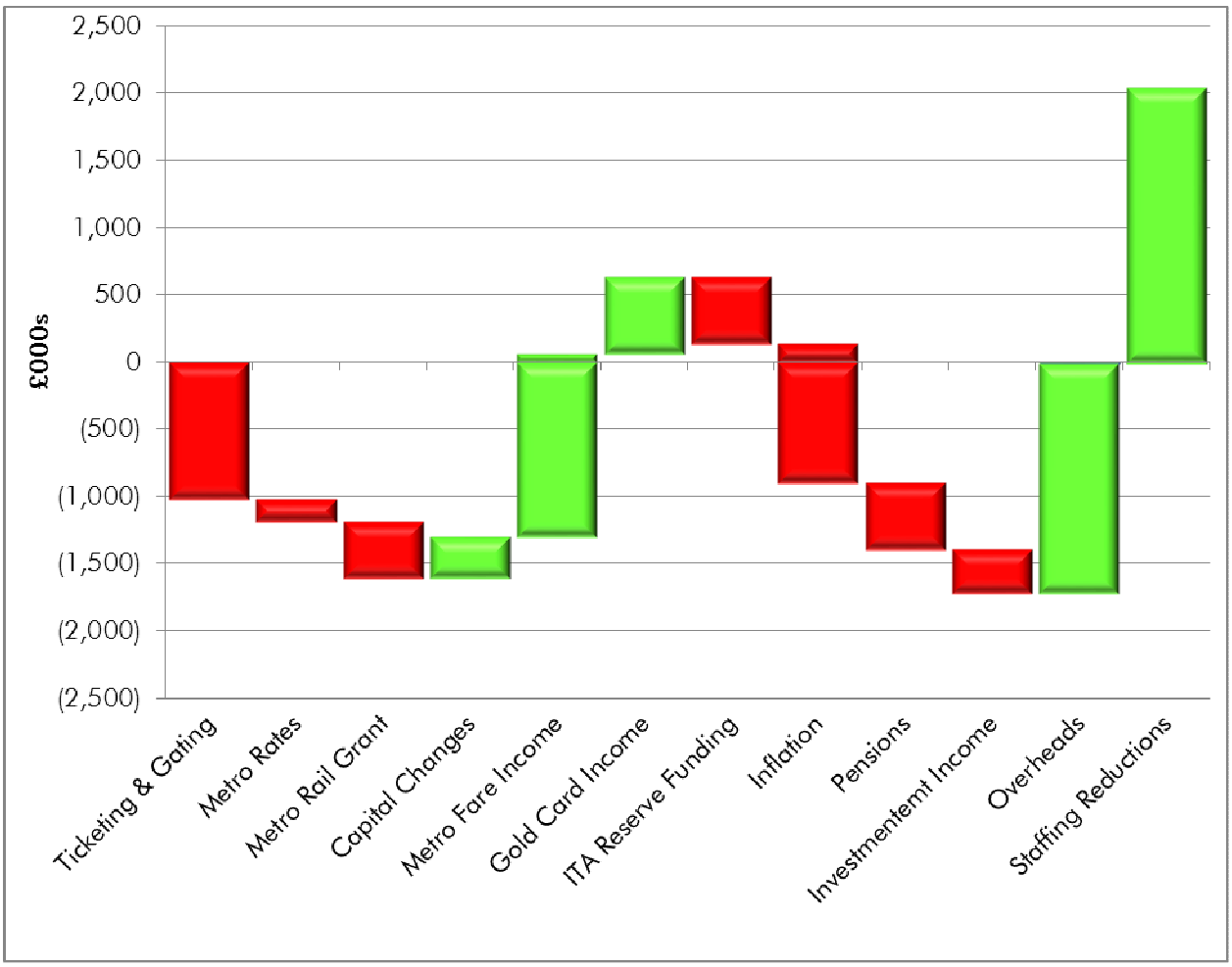
A summary of the budget is shown in the attached Appendix B.

7.1 Notwithstanding the reduction in the levy, Nexus is also facing a reduction in its resource base in 2011/12 in relation to Metro Rail Grant payable by DfT, the withdrawal of ITA support of £0.500m that was provided in 2009/10 and 2010/11 in order to maintain the price of the Metro Gold Card at £12, as well as the need to re-base its forecast of investment income in response to the continued and unprecedented low level of interest being earned on its cash deposits.

7.2 Nexus also has a number of committed cost pressure and increases that need to be accommodated within its budget for 2011/12. These relate to the potential impact of the 2010 pensions valuation, contractual staff increments, general price inflation on contracts, an increase in the rateable value of the Metro network and increased costs associated with the introduction of new ticket machines and barriers at stations across the Metro network.

7.3 Recognising these pressures and the pressure on the levy, Nexus will seek to increase its income base in relation to the Metro (through the January 2011 fare increase which was approved by the ITA in November 2010) and will also realise sizeable efficiencies through the implementation of a revised organisational structure in April 2011 which reduces the staffing establishment by 10%, as well as significantly reducing its overheads. In terms of efficiency savings, to the extent that some of these savings relate to Metro (necessary because of the reduction in Metro Rail Grant) and because very little administrative overhead is incurred in the management of Concessionary Travel, when measured against the £24.2m of discretionary expenditure, Nexus is setting out to achieve a 13% saving in its overheads.

7.4 These cost pressures and efficiency measures for 2011/12 designed to cover cost pressures and contribute to a reduction in the levy are highlighted in the chart below:-



Cost pressures and loss of external grant relating to Metro are largely offset by a saving on capital charges and the agreed increases in fares from January 2011, as anticipated in the January 2010 reference case submission to DfT for Metro Reinvigoration Phase II. A proposed Gold card price increase (to be considered elsewhere on this agenda) will offset the loss of ITA reserve funding made available in both 2009/10 and 2010/11 which enabled the price to be frozen. Other cost pressures are offset by gross efficiency savings amounting to some £3.7m from savings in overheads and staffing reductions. This gives a net saving of almost £2.0m in 2011/12.

7.5 In summary, given the implementation of these efficiency measures, it should be possible for Nexus to withstand a reduction in the levy contribution of broadly 3% (in cash terms) without any reduction in service delivery in 2011/12.

The gap between the expenditure requirement in 2011/12 and resource availability is set out below:-

£000		£000
Total Nexus Requirement		100,933
Non-Levy Grant Income		
Light Rail (Metro)	(24,884)	
Heavy Rail (Northern Rail)	(4,361)	
		(29,245)
		70,688
Levy Contribution (including Concessionary Travel grant adjustment)		(70,323)
Net Deficit		1,365

7.6 **The Funding Gap 2011/12 to 2012/13**

Over the period 2011/12 to 2012/13, the gap in funding will amount to £6.395m as outlined in the table below:-

	2011/12	2012/13	Total
	£000	£000	£000
Total Nexus Requirement	100,933	101,261	201,194
Non-Levy Grant Income			
Light Rail (Metro)	(24,884)	(24,948)	(49,832)
Heavy Rail (Northern Rail)	(4,631)	(4,631)	(8,722)
	71,688	71,952	143,640
Levy Funding (including Concessionary Travel grant adjustment)	(70,323)	(66,922)	(137,245)
Net Deficit	1,365	5,030	6,395

7.7 Given the extremely challenging funding settlement, it is Nexus' view that a two year plan which seeks to reduce the levy by up to 5% in each of the financial years 2011/12 and 2012/13 can be achieved if Nexus' balances are used to maintain service provision in the short term (including the implementation of the accessible bus

network). During the two years that this financial plan relates to, proposals that create additional, more sustainable efficiency savings will be prepared for consideration by the ITA.

Nexus Reserves

7.8 Nexus revenue reserves amounted to £14.2m at 31 March 2010. The intention is to maintain a level of reserves at or around £5.0m by 2013/14, a level at which the Director of Finance and Resources considers prudent as a working balance.

To protect services in the short term will require around £9.0m of reserves to be released by March 2013, being used to:-

- Cover the short term funding gap in 2011/12 and 2012/13 of around £6.395m cumulative;

- Fund the cost of redundancies relating to the headcount reduction of 10% by April 2011; and

- Provide a contingency sum to allow the development of more sustainable efficiency savings for presentation to the ITA over the next two years.

This strategy will therefore leave around £5m in reserves as at March 2013.

8 Transfer of Concessionary Travel Grant

8.1 A letter from the Secretary of State for Communities and Local Government to Leaders of Local Authorities in England confirmed that from 2011/12 Concessionary Travel Grant will be rolled into the Formula Grant. The national figures for the level of grant that will be transferred into the Formula Grant are as follows. Tyne and Wear's share of the national £223m currently being received in 2010/11 is £5.67m.

8.2 Changes have been made to the Formula Grant Distribution method, the result of which is that the base grant adjustment given to District councils in Tyne and Wear is £7.107m, compared with £5.67m that the ITA and Nexus will no longer receive directly as specific grant. This surplus will be retained by the District councils to help manage general cost pressures, in addition to the 5% reduction in the levy and the additional one off saving from capital financing adjustment.

Table 3 – Transfer of Specific Grant for Concessionary Travel – Levy Adjustment for 2011/12 and Grant Transfer to Tyne and Wear District Councils

	Levy Adjustment	Grant Transfer	Difference
	£m	£m	£m
Gateshead	0.978	1.239	0.261
Newcastle	1.457	1.863	0.406
North Tyneside	1.011	1.175	0.164
South Tyneside	0.781	1.014	0.233
Sunderland	1.444	1.817	0.373
TYNE & WEAR	**5.671**	**7.107**	**1.436**

8.3 A second smaller grant, the 'Rural Bus Subsidy' grant has also been transferred from Nexus into formula grant to be paid to the districts. In 2010/11 this grant was £0.150m. For 2011/12, this grant was reduced to £0.089m before being transferred into the base grant for the five District Councils. This grant was part of the base grant that was then cut by an average of 11.4%, so the final grant has been reduced to £0.079m. Unlike concessionary fares, there was no specific allocation identified for 2011/12. It is not proposed to adjust the levy for this grant, so this additional funding will also be retained by the districts. Nexus will need to determine whether any elements of those services currently funded from rural bus subsidy grant can be retained through a further review.

8.4 Further details of the Formula Grant Settlement Announcement and the transfer of Concessionary Travel Grant are included in Appendix D to this report.

9 Risks Contained within the Budget

9.1 There are some medium-term risks within the Financial Plan and these will be managed by Nexus and the ITA, with monitoring reports made to the ITA on a regular basis. These include:

- Inflationary pressures currently in excess of the future expected increase in resource levels;
- The impact of changes in interest rates on investment income and financing costs;
- The need for continued capital investment and the means by which this can be funded;
- The use of unearmarked reserves to bridge the budget gap in the short term.

9.2 **In addition to the monitoring reports outlined above there will be a full review**

when the detailed budget for 2012/13 is set next year.

10 Background Papers

10.1 ITA and Nexus budget working papers.

11 Contact Officer(s)

11.1 Paul Woods, Deputy Clerk and Treasurer to the ITA, tel (0191) 232 8520 or

John Fenwick, Director of Finance & Resources (Nexus), tel (0191) 203 3248

APPENDIX A

Integrated Transport Authority Revenue Estimates 2010/11			
2010/11			**2011/12**
Original Estimate	**Forecast Outturn**	**Description**	**Original Estimate**
£000s	**£000s**		**£000s**
		Integrated Transport Authority/Nexus	
3,932	3,829	ITA Budget	3,649
-	-	less Debt Transfer proposal	(2,662)
101,583	101,583	Nexus	97,680
105,515	**105,412**		**101,329**
(71,706)	(71,706)	Levy on Tyne & Wear District Councils	(73,793)
(33,028)	(33,028)	Government Grants to Nexus	(33,028)
(104,734)	**(104,734)**		**(101,149)**
781	**678**	Change in Reserves	**180**
		Tyne Tunnel/New Tyne Crossing	
(6,231)	(825)	Tyne Tunnel	13,769
(6,231)	**(825)**	Change in Tunnel Reserves	**13,769**

ITA/Tyne Tunnel/Nexus Revenue Balances			
2010/11			**2011/12**
Original Estimate £000s	**Forecast Outturn £000s**	**Description**	**Original Estimate £000s**
		Opening Balance at 1st April	
(3,176)	(3,268)	Integrated Transport Authority	(2,590)
(12,875)	(13,441)	Metro Re-invigoration Reserve	(11,442)
(33,781)	(21,079)	Tyne Tunnel Reserves	(21,904)
(14,068)	(14,165)	Nexus	(15,134)
(63,900)	**(51,953)**		**(51,070)**
		Movement in Balances during year	
781	678	Integrated Transport Authority	180
1,999	1,999	Metro Re-invigoration Reserve	1,999
(6,231)	(825)	Tyne Tunnel Reserves	13,769
-	(969)	Nexus	1,365
(3,451)	**883**		**17,313**
(67,351)	**(51,070)**	**Closing Balance at 31st March**	**(33,757)**
		being	
(2,395)	(2,590)	Integrated Transport Authority	(2,410)
(10,876)	(11,442)	Metro Re-invigoration Reserve	(9,443)
(40,012)	(21,904)	Tyne Tunnel Reserves	(8,136)
(14,068)	(15,134)	Nexus	(13,769)
(67,351)	**(51,070)**		**(33,757)**

Integrated Transport Authority

1 ITA Budget

Item No.	Description	2010-2011 Original Estimate	2010-2011 Forecast	2011/2012 Original Estimate
	Net Expenditure			
		£	£	£
	ITA Administration			
1.1	Staffing and charge for servicing officers *	343,300	343,300	301,507
		343,300	343,300	301,507
1.2	Audit Fees	47,070	37,470	32,599
1.3	Members allowances and expenses	86,300	86,300	86,300
1.4	Accommodation charges	6,120	6,120	6,090
1.5	Subscriptions	36,040	36,040	33,000
1.6	Conferences	1,500	1,400	1,000
1.7	Travel expenses and subsistence	4,000	3,000	3,000
1.8	IT development	34,000	34,000	22,000
1.9	Printing costs	16,000	15,200	15,200
1.10	Advertising	2,050	2,050	2,050
1.11	Scrutiny Committee	6,700	4,700	4,700
		239,780	226,280	205,939
	Total	583,080	569,580	507,446
1.12	Pensions			
	Pension deficiency payments	510,000	510,000	510,000
1.13	Financing Charges			
	Financing Charges	2,874,370	2,809,140	2,662,360
	less Debt Transfer - contributions from Districts			(2,662,360)
		3,967,450	3,888,720	1,017,446
1.14	Income			
	Interest on Revenue Balances	(35,000)	(60,000)	(31,000)
	Net Expenditure on ITA Budget	3,932,450	3,828,720	986,446

* See note 1

Integrated Transport Authority

2 Tyne Tunnel and New Tyne Crossing

Net Expenditure

Description	2010-2011 Original Estimate	2010-2011 Forecast	2011-2012 Original Estimate
	£	£	£
Tyne Tunnel Ongoing Costs			
TT2 Contract			
Toll Income	(13,150,000)	(13,260,000)	(15,000,000)
Usage Payments *	2,962,000	6,002,600	6,336,800
	(10,188,000)	(7,257,400)	(8,663,200)
Other			
Employees	33,310	32,810	32,810
Pensions	588,410	588,410	588,410
Other Expenses	27,630	58,590	55,390
New Tyne Crossing Support Services	165,456	172,520	145,000
NTC Community Fund	10,000	10,000	10,000
Financing Charges	3,594,520	3,444,300	5,832,900
Interest on Finance lease *	-	2,630,857	16,106,000
Interest on Tunnel Balances	(483,000)	(505,000)	(338,000)
Total Expenditure	3,936,326	6,432,487	22,432,510
Surplus/Deficit on existing Tyne Tunnels	(6,251,674)	(824,913)	13,769,310

***** The revised budget for 2010/11 and the budget for 2011/12 include an accounting adjustment that is required under the move to International Financial Reporting Standards (IFRS). Under IFRS, any PFI or similar arrangements have to be accounted for under International Financial Reporting Interpretation Committee 12 (IFRIC 12). The New Tyne Crossing partnership is considered to be such an arrangement, and this has resulted in changes to the treatment of interest on finance lease and the usage payment. There is no change in cash terms, although this does affect Tyne Tunnel reserves.

NOTE 1 TO APPENDIX A

SLA supporting the ITA, Tyne Tunnel and Capital Programme included in Budget		
	SLA Value	SLA Value
	2010/11	**2011/12**
	£	**£**
Management Support (*includes Communications)*	77,630	74,340
Legal Advice	64,020	47,480
Accountancy and Financial Advice (*includes Insurance*)	146,870	127,270
Internal Audit and Risk*	9,230	19,490
Administration of the Democratic Process	82,200	73,980
Scrutiny	12,000	12,000
OD & Personnel Services	5,050	5,050
Policy Advice	105,270	127,040
New Tyne Crossing (*excludes Monitoring Officer employed by TWITA*)	254,690	252,950
	756,960	**739,600**
Included in Estimates		
ITA	343,300	301,510
Tyne Tunnel	166,510	145,000

* From 2011/12, SLA for Internal Audit includes Risk

APPENDIX B

Nexus - Revenue Budget 2011/12 to 2012/13				
2010/11			**2011/12**	**2012/13**
Budget £000	**Forecast £000**		**Budget £000**	**Forecast £000**
47,655	47,463	Concessionary Travel	47,020	47,049
25,731	25,160	Metro	23,734	23,459
961	975	Ferry	909	914
4,355	4,357	Rail	4,366	4,368
10,823	11,052	Bus Service Delivery	10,590	11,134
3,229	3,042	Bus Infrastructure	2,791	2,829
2,287	2,594	Information and Promotion	2,428	2,484
1,084	1,086	Planning	1,030	1,044
96,125	**95,729**	**Total Operations**	**92,868**	**93,281**
47	47	Deregulation Liabilities & Add. Costs	47	47
6,300	5,883	Pensions & Provisions	6,743	6,761
305	305	Redundancy Fund	305	305
1,921	1,943	Corporate & Democratic	1,860	1,879
104,698	**103,907**	**Total Costs**	**101,823**	**102,273**
(625)	(609)	Investment Income	(300)	(300)
(377)	(377)	Net Movement in Capital Reserve	(590)	(712)
103,696	**102,921**	**Total Nexus Requirement**	**100,933**	**101,261**
(103,696)	(103,890)	**Grants**	(99,568)	(96,231)
0	(969)	**Net (Surplus)/Deficit**	1,365	5,030
0	969	**Transfer to/(from) Reserves**	(1,365)	(5,030)
0	**0**		**0**	**0**

APPENDIX C

TYNE & WEAR INTEGRATED TRANSPORT AUTHORITY ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT FOR 2010/11 UNDER THE CAPITAL FINANCE AND ACCOUNTING AMENDMENT REGULATIONS 2008.

Summary

The Authority is required to produce a Minimum Revenue Provision (MRP) Statement which sets out how it will provide for the repayment of any debt. This is the fourth such statement we have had to produce which recommends which Option will be used to calculate the MRP. The regulations provide four options (detailed below)

Recommendation

The revised MRP guidance has been offered, giving four options on how to calculate the MRP. MRP is the repayment of any debt. Having considered the options it is recommended to agree the adoption for MRP arrangements in 2011/12 of:

- Option 1 for supported capital borrowing, which is a continuation of the current practice of a 4% minimum revenue provision;
- Option 3 on unsupported capital borrowing (known as Prudential Borrowing) which will be repaying the debt in equal annual instalments over the estimated life of the asset; and
- Option 3 on unsupported capital borrowing (known as Prudential Borrowing) for the New Tyne Crossing which will be repaying the debt over the life of the asset on an annuity basis.

The ITA has no supported capital expenditure which requires borrowing in 2010/11 and 2011/12, as from 1 April 2008 the Integrated Transport allocation is in the form of capital grant.

More details on the regulations are given below.

Background

Under regulation 27 of the 2003 Regulations, local authorities are required to charge to their revenue account for each financial year MRP to account for the cost of their debt in that financial year. Prior to its amendment by the 2008 regulations, regulation 28 set out the method authorities are required to follow in calculating MRP. For the financial year 2007/08 and subsequent financial years, the detailed calculation has been replaced with a requirement that local authorities calculate an amount of MRP which they consider to be prudent. This guidance is issued under section 21(1A) of the 2003 Act (as inserted by section 238(2) of the Local Government and Public Involvement in Health Act 2007) and addresses this new requirement in regulation 28. In accordance with section 21(1B) of the 2003 Act, local authorities must have regard to this guidance.

Previous Practice

Prior to 2007/08, the calculation of the MRP was done via the Regulatory Method under regulation 28; i.e. MRP is equal to 4% of the Capital Financing Requirement (CFR) at the end of the preceding financial year.

Options for calculation of Minimum Revenue Provision

The Revised MRP Guidance offers four options for Prudent Provision. These four options are:

1. **Option 1: Regulatory Method**

   For debt which is supported by Revenue Support Grant (RSG), authorities will be able to continue to use the formulae in the current regulations 28 and 29 of the 2003 Regulations, since the RSG is calculated on that basis. This option will be available for all capital expenditure prior to 1 April 2008.

2. **Option 2:CFR Method**

   This can be used on supported debt and is similar to Option 1. While still based on the concept of the CFR, which is easily derived from the balance sheet, it avoids the complexities of the formulae in Regulation 28. This option will be available for all capital expenditure prior to 1 April 2008.

3. **Option 3: Asset Life Method**

   For new borrowing under the Prudential system for which no government support is given and therefore self-financed, there will be two options. Option 3 is to make MRP provision in either

   - **Equal annual instalments over the estimated life of the asset** for which the borrowing is undertaken. The original estimate of the life is determined at the outset and should not be changed in later years, even if in reality the condition of the asset has changed significantly: or
   - **Annuity Method -** this method has the advantage of linking the MRP to the flow of benefits from an asset where the benefits are expected to increase in later years.

   The formula allows an authority to make voluntary extra provision in any year. Freehold land cannot have a life attributed to it so it should be treated as a maximum of 50 years.

   MRP is calculated following the year in which the expenditure is incurred. However, paragraph 13 of the guidance highlights an important exception to this rule. In the case of the construction of a new building or infrastructure, MRP would not have to be charged until the new asset came into service. This 'MRP holiday' until the asset was complete and earning income to service the debt in sensible and should make major projects (such as the New Tyne Crossing) more affordable.

4. **Option 4: Depreciation Method**

   MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements.

   For this purpose standard depreciation accounting procedures should be followed, except in the following respects:

(a) MRP should continue to be made annually until the cumulative amount of the provision is equal to the expenditure originally financed by borrowing or credit arrangements. After that, the authority may cease to make MRP;

(b) On disposal of the asset, the amount of the capital receipt can not be taken to the revenue account and the authority must comply with the normal requirements of the 2003 Act on the use of capital receipts, i.e. receipts go to the balance sheet;

(c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

Conditions

Options 1 and 2 can only be used in relation to:

(a) Capital expenditure before 1 April 2008, and
(b) Capital expenditure incurred on or after that date which the authority is satisfied forms part of its Supported Capital Expenditure.

Options 3 and 4 should be used on all capital expenditure incurred on or after 1 April 2008 which is financed by borrowing or credit arrangements and which does not form part of the authority's Supported Capital Expenditure, i.e. Prudential Borrowing.

Option 3 can be used for all capital expenditure.

CFR adjustment

Where an authority has used Option 3 or 4, the CFR for the purpose of Options 1 and 2 should be treated as not being increased by the amount of the expenditure on the asset to prevent double counting. In addition, the CFR should not be treated as being decreased by the amount of MRP made under Options 3 and 4.

Tyne & Wear Passenger Integrated Authority Policy on making MRP

The revised regulations came into force on 31 March 2010.

A financial analysis has been done for a new capital project that uses Prudential Borrowing comparing the current MRP practice to the new Option 3 (see below) -

Financial Analysis

In this example, work on a new project started in 2006/07 and is going to cost £100m over the three years it takes to construct (£25m 2006/07, £50m in 2007/08 and £25m in 2008/09).

Current Practice – MRP would be charged at 4% per year, starting in 2007/08.

Option 3 –The life of the asset is 50 years and therefore the MRP will be charged over 50 years with the asset operational in 2010/11.

MRP calculation on £100m project over the initial 6 year of the project -

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Current Practice	£3.000m	£3.880m	£3.725m	£3.575m	£3.433m	£3.295m
Option 3 - Equal Annual Instalments	0	£2.000m	£2.000m	£2,000m	£2.000m	£2.000m
Option 3 - Annuity	0	£0.270m	£0.290m	£0.310m	£0.330m	£0.350m

If Option 3 - Equal annual instalments is used, it would allow projects to be completed and receiving revenue income before MRP payments are required and the borrowing could be taken out over a longer period. However, it should also be noted that there would be a knock-on consequence to the project from higher interest charges on a larger outstanding debt over the life of the borrowing. The external interest on all the authority's borrowing is recharged to projects on the basis of outstanding debt. Under Option 3 the outstanding debt for the £100m project would incur greater interest charges.

If Option 3 - Annuity basis is used the principal repayments increase over the period of repayment, reflecting the benefits from the capital project over the life of the project and it has the benefit that it can be revisited and varied to reflect changing revenue forecasts. However, as discussed above, the knock-on consequence would be increased interest payments in the earlier years of a project.

This basis is beneficial for use in the New Tyne Crossing project as the back-loading of the MRP using the annuity method is consistent with the principal repayment of debt included in the New Tyne Crossing model which will be repaid at the end of a 30 year period. The New Tyne Crossing model reflects an increase in traffic and tolls over the 30 year life which is consistent with back loading the principal repayments.

It is proposed that the ITA will adopt the following arrangements for MRP in 2011/12 (based on 2010/11 capital expenditure): using option 1 on Supported Capital Expenditure; Option 3 on unsupported capital expenditure funded by Prudential Borrowing - based on equal instalments; and for the New Tyne Crossing project Option 3 – using the annuity basis.

The ITA will also continue to make voluntary repayments if appropriate.

APPENDIX D

Formula Grant Settlement Announcement

1 Summary

1.1 The Comprehensive Spending Review (CSR) announced on 20 October 2010 gave national headline resource totals for the four years from 2011/12 to 2014/15. On 13 December, the Department for Communities and Local Government (DCLG) issued detailed grant figures for local authorities for the first two years of this period 2011/12 to 2012/13.

1.2 The overall settlement is complex because of the removal, transfer and simplification of many grants including the concessionary fare grant of £5.71m that the ITA and Nexus currently receive. The key issues for the ITA were the grant implications for the five district councils and more specifically the impact of the significant changes that the Government was making to the funding for concessionary fares. The outcome of the changes is a positive one with the Government choosing to create a separate sub block and a basis of distribution that the ITA lobbied for. The outcome will enable the district councils to pass back the funding of £5.71m to the ITA through an addition to the levy for 2011/12 to compensate for the transfer of the funding of the concessionary responsibilities to the district councils.

1.3 This appendix summarises the impact of the settlement announcement and the key points reflected in the response to the consultation paper.

2 Formula Grant Announcement

2.1 On 13 December DCLG announced grant figures for 2011/12 and 2012/13 for consultation.

2.2 In overall terms the Tyne and Wear Districts received significant reductions in their formula grant funding as part of the national frontloading of funding reductions. The grant reductions for each of the five districts are outlined below, including reductions averaging -11.4% in 2011/12 and -7.9% in 2012/13.

FORMULA GRANT FIGURES FOR TYNE AND WEAR DISTRICTS 2010/11 TO 2012/13

	2010/11		2011/12			2012/13		
	Original Formula Grant	Adjusted Formula Grant	Formula Grant	Grant Change		Formula Grant	Grant Change	
	£m	£m	£m	£m	%	£m	£m	%
Gateshead	105.814	119.629	105.905	-13.724	-11.5%	97.419	-8.486	-8.0%
Newcastle	166.957	193.214	171.381	-21.833	-11.3%	158.119	-13.262	-7.7%
North Tyneside	87.909	103.271	90.568	-12.702	-12.3%	82.544	-8.024	-8.9%
South Tyneside	90.285	101.062	90.058	-11.004	-10.9%	83.192	-6.866	-7.6%
Sunderland	157.462	178.278	158.132	-20.145	-11.3%	145.837	-12.295	-7.8%
TOTAL	608.427	695.454	616.045	-79.409	-11.4%	567.111	-48.934	-7.9%
England Average					-9.9%			-7.3%

2.3 The increase in the base adjusted grant for 2010/11 includes a number of grant transfers from specific grants to the main formula grant. In particular the figures include the following grant transfer in respect of concessionary travel grant and rural bus support from the ITA/Nexus to the original districts.

2.4 DCLG used a new broader analysis of change, which showed the impact of grant changes on 'Revenue Spending Power', which reflected the loss of other specific grants and Councils' access to funding from Council Tax and some new HNS funding. Transitional grant was allocated to cap the maximum reduction in spending power to -8/9%. The change in spending power for Tyne and Wear Districts on this broader measure is shown below and averages 7.7% after the application of transitional grant for South Tyneside. The above average reductions for four of the five Tyne and Wear Districts mainly reflects the loss of specific grants such as the Working Neighbourhood Fund. North Tyneside had already suffered the loss of its WNF grant in previous years.

Change in 'Revenue Spending Power' in 2011/12

	2011-12 Revenue Spending Power	Change in estimated 'revenue spending power' 2011-12 £m		Transition Grant	Damped Change in Revenue Spending Power in 2011/12	
	£m	£m	(%)	£m	£m	(%)
Gateshead	217.085	-18.602	-7.9%	0.000	-18.602	-7.9%
Newcastle	311.475	-26.486	-7.8%	0.000	-26.486	-7.8%
North Tyneside	197.574	-9.045	-4.4%	0.000	-9.045	-4.4%
South Tyneside	168.906	-19.804	-10.5%	3.009	-16.795	-8.9%
Sunderland	290.400	-28.310	-8.9%	0.000	-28.310	-8.9%
TOTAL	1,185.439	-102.247	-7.9%	3.009	-99.238	-7.7%
England Average			-4.7%			-4.5%

Transfer of Concessionary Travel Grant

2.5 A letter from the Secretary of State for Communities and Local Government to Leaders of Local Authorities in England confirmed that from 2011/12 Concessionary Travel Grant will be rolled into the Formula Grant. The national figures for the level of grant that will be transferred into the Formula Grant are as follows. Tyne and Wear's share of the national £223m currently being received in 2010/11 is £5.671m.

(£m)	**Baseline**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Concessionary Travel Special Grant	223.00	224.00	204.00	208.00	212.00

2.6 The protection of the funding for concessionary travel at a high level for 2011/12 onwards is welcomed as there were indications in the national March 2010 Budget that the assumption of significant efficiency savings could have cut this grant significantly.

2.7 A major consultation exercise over the summer about Formula Grant Distribution options considered over 40 options, some of which resulted in potential net gains (surplus) for Tyne and Wear Authorities. Section 26 and 27 of the consultation letter set out what the Government has done, as shown below.

"26. Concessionary travel would be removed from the lower tier by reverting to the 2005/06 weightings in the district-level EPCS formula and notionally adjusting each authority's prior year formula grant base position based on estimated 2010/11 net revenue expenditure (CONCF3). Concessionary travel would be added to the county level ECPS formula using the second formula based on regression against past expenditure, adjusting the base position for the transfer of the Department for Transport special grant pro rata to the new concessionary travel formula (CONCF8).

27. Concessionary travel would have its own sub block within the EPCS RNF."

2.8 The formula changes made by the Government are in line with the ITA's response to the options consulted upon in the late summer. The ITA had recommended either of options CONCF3 or CONCF4 combined with CONCF8 and the use of the separate Relative Needs Formula (RNF) sub block to give greater visibility of changes in the future. These have all been agreed and as a result the base grant adjustment given to the District councils in Tyne and Wear is £7.107m, which is £1.436m higher than the £5.671m of grant that the ITA and Nexus will no longer receive directly as specific grant. As the budget strategy involves the guaranteed levy adjustment in line with the £5.671m loss of grant, there will be a surplus for the district councils to help manage general cost pressures.

Transfer of Specific Grant for Concessionary Travel – Levy Adjustment for 2011/12 and Grant Transfer to Tyne and Wear District Councils

	Levy Adjustment	Grant Transfer	Difference
	£m	£m	£m
Gateshead	0.978	1.239	0.261
Newcastle	1.457	1.863	0.406
North Tyneside	1.011	1.175	0.164
South Tyneside	0.781	1.014	0.233
Sunderland	1.444	1.817	0.373
TYNE & WEAR	5.671	7.107	1.436

Separate Concessionary Travel RNF Sub Block

2.9 The establishment of a separate RNF sub block gives more visibility of changes to concessionary fare funding. The RNFs are not expressed in cash terms but as proportions which are applied to distribute resources between authorities, expressed to 15 decimal places. The RNF totals for 2011/12 and 2012/13 are shown below for England and Tyne and Wear. Tyne and Wear's share of the national total is 3.19%. The

Minister's letter made it clear that the national control total of the specific grant to be transferred into Formula Grant was to reduce from £224m to £204m, an 8.9% reduction. However, a comparison of the RNF totals for 2011/12 and 2012/13 shows a significantly larger national reduction of -18.7%, which implies a much bigger reduction in funding support for Concessionary Travel. The average reduction in total RNF for England between the two years is -8.2%, so the national reduction appears to be more than twice the national average. This is an issue that has been highlighted in the response to the consultation.

	2011/12 RNF		2012/13 RNF		Change
England	0.01282939498307	100%	0.01043291908773	100%	-18.7%
Gateshead	0.00007127574136	0.56%	0.00005769507158	0.55%	-19.1%
Newcastle	0.00010717827938	0.84%	0.00008713997602	0.84%	-18.7%
North Tyneside	0.00006758592514	0.53%	0.00005493898734	0.53%	-18.7%
South Tyneside	0.00005832316324	0.45%	0.00004723627148	0.45%	-19.0%
Sunderland	0.00010450593285	0.81%	0.00008445637654	0.81%	-19.2%
Tyne and Wear	0.00040886904196	3.19%	0.00033146668295	3.18%	-18.9%

Rural Bus Subsidy Grant Transfer into Formula Grant

2.10 A second smaller grant, the 'Rural Bus Subsidy' grant has also been transferred from Nexus into formula grant to be paid to the districts. In 2010/11 the base grant was £0.150m.

For 2011/12, this grant was reduced to £0.089m before being transferred into the base grant for the five districts as shown below. This grant was part of the base grant that was then cut by an average of 11.4%, so the final grant has been reduced to £0.079m. Unlike concessionary gares there was no specific allocation identified for 2011/12. It is not proposed to adjust the levy for this grant.

Transfer of Rural Bus Subsidy Grant – Levy Adjustment for 2011/12 and Grant Transfer to Tyne and Wear District Councils

	Transferred to base grant	Adjustment For Formula Grant	Amount following reduction
	£m		£m
Gateshead	0.015	-11.5%	0.014
Newcastle	0.023	-11.3%	0.020
North Tyneside	0.016	-12.3%	0.014
South Tyneside	0.012	-10.9%	0.011
Sunderland	0.023	-11.3%	0.020
TYNE & WEAR	0.089	0.079	0.079

Capital Financing Charges

2.11 The RNF that the District Councils receive in respect of capital financing charges is made up of an allocation for debt repayment and an allocation for interest. The calculation of interest is based on a national interest rate that has been reduced from 5.4% in 2010/11 to 5.1% in 2011/12 and 2012/13. The new rate of 5.1% does not take into account the recent decision of the Treasury to increase prudential borrowing interest rates and should possibly be increased to a higher rate. This interest rate is still higher than the actual interest rate of around 4.2% that the ITA is paying on its historic debt.

3 Response to the Revenue Grant Settlement

3.1 A response to the settlement has been prepared by the Deputy Clerk and Treasurer. In the response to the settlement, support was given to the protection of the overall level of the grant transferred into formula grant in 2011/12, and the options chosen to make the transfer (CONCF3 and CONCF8) welcomed.

3.2 The establishment of the separate sub block for concessionary travel was also welcomed. However, the significant reduction in the RNF sub block in 2012/13 of -18/7% is a cause for concern and has been raised in the consultation response.

3.3 The reduction in the interest rate to 5.1% has been raised, with a request that account should properly be taken of the Treasury action to increase the PWLB interest rates for new borrowing.

Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

DATE:	**18 March 2011**
TITLE:	**Accounting Policies 2010/11**
REPORT OF:	**Deputy Clerk and Treasurer to the ITA**
	Not confidential
	District Implications - all

1. Summary / Purpose of Report

1.1 The purpose of this report is to update the Standards and Audit Committee on the Authority's draft accounting policies to be applied in the preparation of the Annual Report and Accounts for 2010/11 and to seek confirmation from Standards and Audit Committee that appropriate policies are being applied. The accounting policies are currently draft, subject to audit approval. Standards and Audit Committee will be notified of any significant changes to these accounting policies at the next meeting.

1.2 This update reflects changes which have been made to the ITA's accounting policies for 2010/11 as a result of the move to production of the accounts on an International Financial Reporting Standards (IFRS) basis.

1.3 It is a requirement of the Local Government Act 2003 and the Accounts and Audit Regulations 2003 for the Statement of Accounts to be produced in accordance with proper accounting practices.

2. Recommendations

2.1 The committee is recommended to:

1. Review the accounting policies; and
2. Approve their use in the preparation of the 2010/11 accounts.

3. Introduction / Background

3.1 For 2010/11 it is a statutory requirement for the ITA to report under IFRS, as set

out in the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

3.2 This replaces the SORP (Statement of Recommended Practice) on which the previous accounting policies were based.

4. Main changes

4.1 Changes to Core Financial Statements

Under IFRS the Core Financial Statements are named and presented differently. Therefore terminology throughout the accounting policies has changed. The Comprehensive Income and Expenditure Statement replaces the Income and Expenditure Account and Statement of Recognised Gains and Losses; and the Movement in Reserves Statement replaces the Statement of Movement on General Fund Balance. There are format changes to the Balance Sheet, Cash Flow Statement and Notes to the Accounts.

4.2 Grants and Contributions

Under previous accounting arrangements, grants received towards capital expenditure were held in a government grants deferred account and written off to revenue over the life of the asset the grant was used to purchase.

Under IFRS, all such grants are treated as revenue income as soon as any conditions relating to the grant have been met.

4.3 Component Accounting

IFRS places a greater emphasis on component accounting. Where components of an asset are significant in value in relation to the total value of the asset as a whole, and they have substantially different economic lives, they should be recognised separately. For example, a building can be split into four components – building fabric, roof covering, mechanical and electrical and external. Different useful economic lives (UELs) are applied to the different components and depreciation is based on the individual component.

4.4 Leases

Leases can be classified as either finance or operating leases. If a lease transfers substantially all the risks and rewards incidental to ownership it will be classified as a finance lease regardless of its legal form.

For assets leased under a finance lease, the asset value is recognised as either an asset or a liability in the balance sheet and the annual payments consist of an amount of interest plus an amount to clear the relevant debtor or creditor.

Leases that do not meet the definition of finance leases are accounted for as operating leases and the income or expenditure is either credited, or charged to,

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

service revenue accounts on a straight-line basis over the term of the lease.

Under IFRS, the land and buildings elements of a lease of land and buildings require separate identification for both lease classifications and subsequent valuation. In most cases, the land element of a lease will be an operating lease.

4.5 **New Tyne Crossing**

In 2009/10 under International Financial Reporting Interpretation Committee 12 (IFRIC 12) "Service Concessions", changes were made to the accounting for the New Tyne Crossing. On completion the asset was to be recognised within fixed assets on the balance sheet and depreciated over its useful life. A corresponding financial liability representing the obligation to make payments under the contract was recognised and an interest expense charged on it.

Further work on the New Tyne Crossing model is currently under way, to ensure it is in line with the most up-to-date accounting guidance available. This work may lead to changes in the way the contract is accounted for, and the accounting policies will be updated as soon as this has been confirmed.

5. Further comments by the:

- **Clerk** none
- **Treasurer** see main report
- **Legal Advisor** none
- **Director General** none

6. Background Papers

6.1 Code of Practice 2010/11

7. Contact Officer (s)

7.1 Eleanor Goodman 0191 277 7518

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

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Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code) and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income & Expenditure

The financial statements, other than the cash flow statement, are prepared on an accruals basis. This means that transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

Charges to service revenue accounts are based on depreciation (where applicable). Only actual interest payments and receipts go through the Comprehensive Income and Expenditure Statement.

7. Employee Costs

Following the transfer of the Tyne Tunnels to the Concessionaire in 2008, the ITA only has one employee. The full cost of the employees, including holidays, is charged to the accounts of the period within which the employees worked.

Employee costs in the Comprehensive Income and Expenditure Statement include the direct salaries and employers' contributions for National Insurance and contributions to the Local Government Pension Scheme in respect of that member of staff. Officers of the Authority and other professional and technical support staff are primarily employed by the Lead Authority, Newcastle City Council. Their costs are charged to the ITA, together with a proportion of overhead costs, on the basis of estimated time spent on ITA business by the staff involved.

Under the Code, an accrual is required for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. Since the ITA only has one employee, this amount is not material and so an accrual will not be made.

8. Pensions

The ITA participates in the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service.

The relevant fund is the Tyne and Wear Pension Fund administered by South Tyneside Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at www.twpf.info.

The liabilities of the pension fund attributable to the ITA are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees;

The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities at current bid price;
- unquoted securities based on professional estimate;
- unitised securities at current bid price; and
- property at market value;

The change in the net pensions liability is analysed into seven components:

(a) Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
(b) Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
(c) Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
(d) Expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return;
(e) Credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
(f) Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
(g) Actuarial gains and losses – changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve; and
(h) contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative

balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Further details are provided in the Notes to the Core Statements.

9. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan

and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and

carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis; and
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

11. Government Grants & Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and

- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

(a) The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise the levy to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

(b) The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to [the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against the levy, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

13. Property, Plant & Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. This work is carried out on behalf of the Authority by the Property Services Division of the lead authority. The first such revaluation took place in 1999/00, with the most recent revaluation completed during 2009/09. These revaluations are detailed within the Notes to the Core Financial Statements.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.
Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

De Minimis Levels

The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimis level are charged to the revenue account and are not classified as capital expenditure, i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established de-minimis level.

For all capital expenditure the de minimis level is £10,000

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant assets (except vehicles) has been calculated by taking the asset value at 31st March 2011, divided by life expectancy. Depreciation is therefore charged in the year of acquisition.

Depreciation on vehicles is based on the asset life and is calculated on a straight line basis. Depreciation on intangible assets is also on a straight-line basis, commencing in the year of acquisition.

The life expectancy for each asset category falls within the following ranges:

Life Expectancy of Assets (in years)			
	Initial	2009/10	2010/11
Freehold Land	n/a	n/a	n/a
Tyne Tunnels	120	75	74
Infrastructure	40	35	34
Other Properties	n/a	n/a	n/a

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Disposals
Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against the levy, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

14. Public Private Partnership (PPP) Contracts

Public Private Partnerships are agreements to receive services and provide capital jointly with the private sector. The New Tyne Crossing Partnership is judged to be such an arrangement.

The ITA accounts for the partnership in accordance with IFRS accounting treatment as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, in a manner that is consistent with the adoption if International Financial Reporting Interpretation Committee 12 (IFRIC 12), Service Concessions Arrangements. In accordance with IFRIC 12, all charges paid for these services were debited to the Comprehensive Income and Expenditure Statement based on a fair value of services provided by the concessionaire until the asset became operational. The value of that asset was transferred to the balance sheet during 2010/11. The payments for services are now split between that required to finance the assets and accounted for similarly to a finance lease as a long term creditor, and the service elements which is charged to revenue.

15. Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For example, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

16. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

17. Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

18. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against the levy for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

19. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the levy.

20. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue & Customs. VAT receivable is excluded from income.

21. Overheads

The costs of central support services e.g. Finance and Legal Services have been allocated to the ITA on the basis of Service Level Agreements in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA). A percentage is allocated to the ITA, Tyne Tunnels and New Tyne Crossing.

22. Tyne Tunnel Income

The majority of the income from tolls is received on a cash basis and so no accruals are necessary. However, prepayments on permit accounts are also received. The balance outstanding on the permit account has been accrued (see Notes to the Core Financial Statements).

23. Group Accounts

The ITA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 to produce Group Accounts to include services provided to Council Tax payers in Tyne and Wear by organisations other than the Authority itself in which the Authority has an interest.

Although there has been no definitive ruling by CIPFA or central government in relation to Integrated Transport Authorities and Passenger Transport Executives, it is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared under merger accounting conventions, on the basis of a full consolidation of the financial transactions and balances of the ITA and Nexus. Nexus has been incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

For the 2010/11 accounts, the ITA has fully complied with the requirements of the Code, providing group figures for the 2010/11 accounts and comparators for 2009/10. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above, with the following additions and exceptions:

Local Government Pension Scheme

The employee of Nexus are members of the Local Government Pension Scheme, which is a defined benefits scheme. Accounting policies consistent with those of the Authority have been adopted, except that the appropriate discount rate for liabilities has been assessed as 5.5%. There are no transactions between the Group Comprehensive Income and Expenditure Statement and the Pensions Reserve in relation to movements in the net pensions liability for Nexus, such that the amounts debited and credited to the Account are reflected in the Group Income and Expenditure Reserve.

Value Added Tax

VAT paid by other group entities is accounted for in the Group Comprehensive Income and Expenditure Statement only to the extent that it is irrecoverable from HM Revenues and Customs.

Other Group accounting policies

All other accounting policies for the group are consistent with the single entity.

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Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

DATE:	**18 March 2011**
TITLE:	**Communities and Local Government Consultation on Revision and Consolidation of the Accounts and Audit Regulations 2003**
REPORT OF:	**Deputy Clerk and Treasurer to the ITA**
	Not confidential
	District Implications - all

1. Summary / Purpose of Report

1.1 The purpose of this report is to update the Standards and Audit Committee on the consultation being conducted by Communities and Local Government (CLG) on the revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 no 553) as amended, and what impact this will have on the Tyne and Wear Integrated Transport Authority.

1.2 If the recommendations set out within the consultation document are approved they will be applicable from 31st March 2011, and therefore impact on the approval process for the 2010/11 Annual Report and Accounts.

2. Recommendations

2.1 Standards and Audit Committee is asked to consider this report and the options set out for information and comment.

3. Introduction / Background

3.1 The consultation is part of a regular series of updates by CLG to the Accounts and Audit Regulations which are designed to keep them in line with developments in financial governance, accounting and audit.

3.2 The proposals contained in the consultation reflect recommendations, requests and issues raised by the Audit Commission, the Chartered Institute of Public Finance and Accountancy (CIPFA) and some categories of the relevant bodies to which the regulations apply.

3.3 There are various aspects to the consultation document, but one main area where the changes would have an impact on the ITA: the Approval and publication of annual accounts.

4. Approval and publication of annual accounts

4.1 The current regulations require members to approve the annual accounts before they have been reviewed by the external auditor. This is out of step with requirements in the private sector and elsewhere in the public sector, where directors or board members will be aware of the findings of the audit before they approve the accounts.

4.2 It is proposed that for the larger relevant bodies (the ITA falls within this definition), the following provisions should be included in the regulations:

- No later than 30 June following the financial year end the responsible financial officer must certify the presentation of the annual accounts in accordance with the current requirements;
- The annual accounts must be published with the audit opinion and certificate, and before that must have been approved by members. The body must use its best endeavours to secure approval and publication by no later than 30 September;
- The responsible financial officer must re-certify the presentation of the annual accounts before member approval is given.

4.3 The requirement for members to approve the draft accounts by 30 June would therefore be removed. The draft accounts would still have to be placed on deposit by 30 June, but the removal of the need to take them to committee for approval would allow for around two weeks more time for the preparation of these accounts. Since the ITA will be moving to accounts based on International Financial Reporting Standards (IFRS) for 2010/11, this additional time would assist in planning and carrying through the preparation process.

5. Options

5.1 Various options are available, on which the views of Standards and Audit Committee would be welcomed. Options include:

A. Continue with the current process, whereby draft accounts would be brought to Standards and Audit Committee in June 2011, and subsequently presented to the ITA;

B. An outturn position / abridged accounts would be presented to the ITA for information at its July 2011 meeting. This would negate the need

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

for a special meeting to be held in June, with a saving in the associated cost and officer time. A meeting could be held earlier in July for Standards and Audit Committee to consider the draft accounts and feed back to the ITA.

C. Accounts to be considered and approved at the September meetings of the ITA and Standards and Audit Committee only.

5.2 The preferred option of the Deputy Clerk and Treasurer would be option B, however the views of Standards and Audit Committee would be welcomed.

6. Next steps

6.1 The outcome of the consultation will be published by CLG in the next few weeks.

6.2 The ITA will be updated on the outcome of the consultation and any changes which arise as a result of it, and the views of Standards and Audit Committee will be taken into account in any decisions made.

7. Further comments by the:

- **Clerk** none
- **Treasurer** see main report
- **Legal Advisor** none
- **Director General** none

8. Background Papers

8.1 Consultation document – Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended.

9. Contact Officer (s)

9.1 Eleanor Goodman 0191 277 7518

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

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Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

Date: **18 March 2011**
Title: **Internal Audit Progress Report**
Report of: **Head of Audit and Strategic Risk**

Reasons for confidentiality – N/A
District Implications – All

1. Summary / Purpose of Report

1.1 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 Standards and 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 2010/11;
- The position on the implementation of audit recommendations.

2. Recommendations

2.1 Standards and Audit Committee is recommended to note:

- progress against the 2010/11 Audit Plan;
- the position on the implementation of audit recommendations.

3. Introduction / Background

3.1 This report shows Internal Audit activity since the last Audit Committee meeting in December 2010 and summarises the following:

Details	Assessment	Comments
Progress against the Annual Audit Plan 2010/11 (see 4.1 & 4.2)	Good	5 audits fully completed. Draft report issued for the 1 remaining audit.
Implementation of recommendations (see 4.3)	Good	1 outstanding recommendation from 2008/09. All other recommendations due for implementation have been implemented.
Internal Audit Performance Indicators (see 5)	Good	All performance targets met with one minor exception.

4. Information

4.1 Completed audits

Internal Audit have issued the following final reports since the last Audit Committee meeting:

Audit	Assessment
Tolls Income	Good
Payments to the Concessionaire	Good
Capital Payments	Good

Appendix I to this report summarises the work undertaken on the above audit together with our findings and recommendations. Appendix II explains how Internal Audit prioritises each recommendation and how we arrive at the overall assessment for each audit.

4.2 Progress against the 2010/11 Audit Plan

Audit	Status
Corporate Governance	Audit complete
Performance Management	Audit complete
Tolls Income	Audit complete
Payments to the Concessionaire	Audit complete
Capital Payments	Audit complete
Treasury Management	Draft Report

4.3 Recommendations Follow Up

4.3.1 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.

4.3.2 1 recommendation raised in 2008/09 remains outstanding. This relates to agreeing an updated partnership agreement covering the provision of fund management services by TWITA on behalf of Nexus. The continuation of this service is currently under discussion.

4.3.3 2 recommendations raised in 2010/11 relating to Performance Management are not due for implementation until 31 March 2011 and officers are currently reviewing arrangements which will feed into this process.

5 Internal Audit Performance Indicators

Internal Audit has a number of internal performance indicators agreed with the Committee, the table below shows the indicators used and our performance in 2010/11 to date. The figures shown in brackets represent the number of audits

to which the performance indicator relates.

Description	Target	Actual
Number of audits completed, i.e. delivery of annual audit plan.	100% (6)	83% (5)
Number of audit days provided in line with SLA activity, i.e. both direct and indirect audit work. (See Note 1 below)	30	44
Average variance of time taken per assignment over the agreed budget. (Based upon the 5 completed audits)	<10%	-2% (23.5 days spend against agreed budgets of 24 days)
Average number of calendar days between end of fieldwork and issue of draft report.	14	8 (6)
Average number of calendar days between draft report issue and management response being received.	For information only	5 (5)
Average number of calendar days between response from management and issue of final report.	7	2 (5)
Number of satisfaction surveys returned.	6	5
Average satisfaction survey score (maximum score 5).	4	3.9

Note 1
Internal Audit has utilised 44 days of audit resource against its budget of 30 days (when excluding non-direct audit work this equates to 27 days of audit resource utilised against agreed budget of 28 days). The level of resource utilised for direct audit work is in line with the agreed budgets.

Indirect work, which was not planned for during 2010/11 has necessitated additional resources and includes a range of activities undertaken in respect of TWITA. These include preparation of reports and attendance at Standards and Audit Committee, involvement in the ITA Service Transformation and Efficiency Programme review, undertaking the self assessment of the effectiveness and skills assessment for Standards and Audit Committee and provision of advice and guidance to officers working on behalf of TWITA. A total of 17 days have been utilised against a budget of 2 days. No charges above the SLA have been levied for this additional resource.

6. **Further comments by the:**

- **Clerk** (none);
- **Treasurer** – the Treasurer has seen this report and is satisfied with its contents
- **Legal Advisor** (none);
- **Director General** (none).

7. Background Papers

All appropriate background papers to support this report are retained by Internal Audit.

8. Contact Officer (s)

Philip Slater – Head of Audit and Strategic Risk – telephone 0191 2116511
Ian Pattison – Principal Auditor – telephone 0191 2116885

Summary of completed audits

Audit Work	Audit coverage	Assessment	Recommendations			Status
			High	Medium	Low	
Tolls Income	To assess whether all significant risks concerned with receipt of Tolls Income are adequately and effectively controlled and the correct amounts are paid to TWITA.	**Good**	0	0	0	Audit complete
Areas where adequate assurances were obtained			**Areas for improvement (medium and high priority only)**			
✓ There are robust contractual arrangements in place for the transfer of tolls income to TWITA. ✓ Tolls income is received promptly and in line with the Project Agreement. ✓ Discrepancies are followed up and resolved promptly. ✓ Income is recorded completely, accurately and in a timely manner on the financial system.			▪ No areas for improvement were identified.			

Appendix I

Summary of completed audits

Audit Work	Audit coverage	Assessment	Recommendations			Status
			High	Medium	Low	
Payments to the Concessionaire	To assess whether all significant risks concerned with payments to the Concessionaire system are adequately and effectively controlled.	**Good**	0	0	0	Audit complete

Areas where adequate assurances were obtained	Areas for improvement (medium and high priority only)
✓ There are robust contractual arrangements in place for all payments and written agreements covering the split of any surplus. ✓ Invoices received from the Concessionaire are checked promptly and confirmed as accurate in line with the Project Agreement. ✓ Discrepancies are followed up and resolved promptly. ✓ Transactions are recorded completely, accurately and in a timely manner on the financial system.	▪ No areas for improvement were identified.

Appendix I

Summary of completed audits

Audit Work	Audit coverage	Assessment	Recommendations			Status
			High	Medium	Low	
Capital Payments	To ensure that there are adequate controls over capital payments made in respect of the New Tyne Crossing project to provide assurance that they are valid and are completely and accurately recorded.	**Good**	0	0	0	Audit complete

Areas where adequate assurances were obtained	Areas for improvement (medium and high priority only)
✓ The Project Agreement clearly sets out capital payments due and the associated milestones to claim these payments. ✓ Payments are made in line with the Project Agreement and only upon receipt of appropriate, documentary evidence to confirm milestones have been achieved. ✓ Value added tax (VAT) on payments is treated correctly. ✓ Payments are authorised appropriately and are coded correctly on the general ledger.	• No areas were identified

Appendix II

Definitions for Individual Findings and Recommendations Ratings

It is for management to accept and implement internal audit findings and recommendations, or accept the risk resulting from not taking action (CIPFA Code of Practice for Internal Audit in Local Government).

We have recorded our findings on an exception basis in the sections below. Each finding has been allocated a priority rating (as explained below) and action to be taken has been agreed with management.

High Priority: Issues arising referring to important matters that are fundamental and material to the organisation's system of internal control. We believe that the matters observed might cause a system objective not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.
Medium Priority: Issues arising referring mainly to issues that have an important effect on the organisation's controls but do not require immediate action. A system objective may still be met in full or in part or a risk adequately mitigated but the weakness represents a significant deficiency in the system.
Low Priority: Issues arising that would, if corrected, improve the organisation's internal control in general but are not vital to the overall system of internal control.

Appendix II

Definitions for Individual Findings and Recommendations Ratings

The following definitions are used to provide an overall opinion for the area under review. The opinion is based on the work carried out in the audit, including a review of selected transactions. Our work should not be relied upon to disclose all weaknesses that may exist. The opinion given, therefore, is not a guarantee that all aspects of the systems reviewed are adequate and effective.

Good – There is an adequate and effective system of risk management, control and governance to address the risk that objectives are not met.

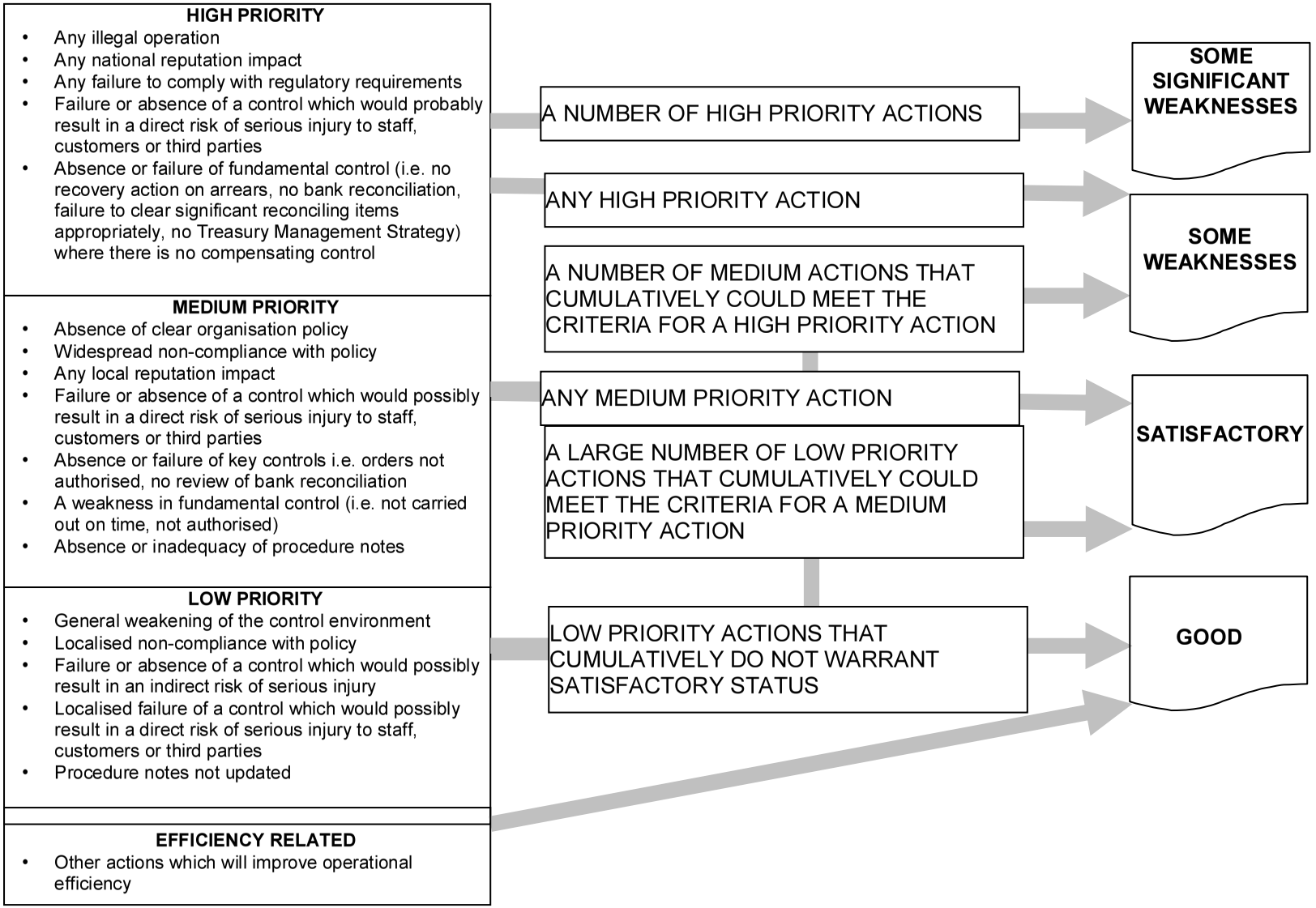
Satisfactory – There is a medium risk that the system will fail to meet its objectives. Slight improvements are required in these areas to increase the adequacy and effectiveness of risk management, control and governance.

Some Weaknesses – Improvements are required in a number of areas to increase the adequacy and effectiveness of risk management, control and governance and ensure objectives are met. The Clerk to the PTA should, taking into account the corporate impact, consider whether this assessment should be included in his/her annual assurance statement, together with any actions agreed and/or taken to improve the system.

Some Significant Weaknesses – There is a real and substantial risk that the system will fail to meet its objectives. Immediate significant improvements are required to increase the adequacy and effectiveness of risk management, control and governance. The Clerk to the PTA would be expected to refer to this assessment in his/her annual assurance statement, taking into account the corporate impact, and state any actions agreed and/or taken to improve the system.

Definitions for Individual Findings and Recommendations Ratings

Each audit report includes an overall assessment of the area being reviewed. The assessment is determined by the type and number of control issues identified using the frameworks below as guidance.



Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

Date: **18 March 2011**
Title: **Internal Audit Strategic Plan 2011/12 to 2013/14 (including the Annual Plan 2011/12)**

Report of: **Head of Audit and Strategic Risk**

Reasons for confidentiality – N/A
District Implications – All

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1 Summary / Purpose of Report

1.1 The CIPFA Code of Practice for Internal Audit in Local Government 2006 requires Internal Audit to produce a Strategic Plan which outlines how the Internal Audit service will be delivered and developed and recommends that the Strategic Plan should consider management's assessment of risks relating to the organisation. This report satisfies these requirements by providing Committee with a proposed Internal Audit Strategic Plan 2011/12 to 2013/14 (including the Annual Plan 2011/12).

2 Recommendations

2.1 Standards and Audit Committee is recommended to:

- Discuss the 3 year Strategic Audit Plan 2011/12 to 2013/14 (including the Annual Audit Plan 2011/12) and agree the current plan or any planned changes.
- Agree the performance indicators as set out in paragraph 6 of this report.

3. Introduction / Background

3.1 The plan is Internal Audit's primary management tool to:

- Define Internal Audit's role within Tyne and Wear Integrated transport Authority (TWITA);
- Provide an overview of the workload of Internal Audit;
- Provide a basis for assessing the adequacy and deployment of Internal Audit resources;
- Provide a benchmark against which progress and performance can

be measured;
- Give authority to Internal Audit once approved.

3.2 As internal auditors, we work alongside TWITA, its management and Standards and Audit Committee helping them to respond to the challenges and emerging issues faced in formulating delivery plans required to meet its business objectives.

3.3 The 2011/12 Internal Audit Service Level Agreement between TWITA and NCC, approved as part of the budget setting process, provides for a total of 30 audit days.

3.4 Internal Audit undertakes annual audits of Newcastle City Council's fundamental financial systems. Some of those systems are also used by TWITA. We will include in our work relevant sample testing of TWITA transactions during those audits.

4. Information

4.1 Strategic Audit Plan 2011/12 to 2013/14 (including the Annual Internal Audit Plan 2011/12)

4.1.1 Given the range of TWITA's activities, not all risks can be covered each year and therefore a rolling 3 year plan is produced and updated each year to plan forward for the following 3 years.

4.1.2 The Strategic Audit Plan 2011/12 to 2013/14 (including the Annual Internal Audit Plan 2011/12) is attached in Appendix I. The plan shows how Internal Audit will deploy its resources and fulfil its responsibilities over the next 3 years and how key risk areas will be covered over the period.

4.1.3 In preparing the strategic and annual plans Internal Audit have:
- Examined TWITA's Strategic Risk Register.
- Consulted with the Deputy Clerk and Treasurer, ITA officers and Director of Finance and Resources at Nexus.
- Considered previous audits undertaken and coverage to provide assurance that all key aspects of TWITA's operations are reviewed over the period. Appendix II to this report highlights audit coverage in the last three years.
- Considered the indicative annual audit plan for 2011/12 included within the Strategic Audit Plan for 2009/10 to 2011/12 agreed by Audit Committee in June 2009.
- Reviewed any known changes to the operating environment, systems and processes.

4.1.4 The resultant audit plan includes allocated time for the following:

- Providing assurance to Management and the Standards and Audit Committee on the effectiveness of the Internal Control environment. This feeds into the Annual Governance Statement process. Each audit will consider the effectiveness of controls and the efficiency of systems under review. This will mean recommendations to improve value for money will be made alongside improving the control environment, e.g. greater efficiency through more joined up working or removal of out dated controls or processes from the system.
- Time is planned to assist managers with the development of new systems and processes. This proactive approach will help managers build effective and efficient controls into systems before they go live
- Providing advice and guidance on day to day activity and issues.
- Supporting the Standard and Audit Committee

4.1.5 The proposed Annual Internal Audit Plan for 2011/12 has changed from the indicative Annual Internal Audit Plan for 2011/12 contained within the Strategic Audit Plan for 2009/10 to 2011/12. A summary of key changes are shown below.

Audit	**Reason for change**
Corporate Governance	Audit removed from plan. This area is low risk in comparison to other areas identified for review and previous audits have found adequate systems in place.
Risk Management	Audit removed from plan. This area is low risk in comparison to other areas identified for review because previous audits have found adequate systems in place.
Tolls Income	Audit removed from 2011/12 plan. This area has been reviewed in each of the last 3 years with the controls being assessed as effective. As a result this is low risk in comparison to other areas identified for review.
Payments to the Concessionaire	Audit removed from 2011/12 plan. This area has been reviewed in each of the last 3 years with the controls being assessed as effective. As a result this is low risk in comparison to other areas identified for review.
Payments to Nexus	The provision of fund management services on behalf of Nexus is under discussion. If it continues transactions will be reviewed as part

	of the proposed Treasury Management audits.
Partnership Arrangements	Audit removed from plan as resources allocated to key priority areas.
North East Smart Ticketing Initiative	New audit to provide assurance over key initiative.
Budgetary Control	New audit to provide assurance over arrangements in current economic climate.
Treasury Management	New audit to reflect ongoing importance of fund management.
Concessionary Travel	New audit to provide assurance over key risk area.
Non-direct audit work	Increased allocation to reflect known non-direct audit work undertaken.

4.1.6 In addition to the proposed Strategic Audit Plan there is a list of other potential audit areas based upon previous audit plans and review of the strategic risk register. Members may wish to consider if they feel work in these areas would provide greater assurance to them than areas proposed for coverage in the Strategic Audit Plan.

5. Audit Approach

5.1 The approach to undertaking audit assignments and reporting these to TWITA management and subsequent reporting to the TWITA Lead Officer and Standards and Audit Committee are set out within Appendix I to the SLA

6. Performance Management

6.1 Internal Audit has a number of performance indicators which enable TWITA to measure the productivity and quality of Internal Audit work undertaken. The following performance indicators are proposed for 2011/12:

Performance Indicator	**Target**
Completion of the Annual Internal Audit Plan.	100%
Number of audit days provided in line with SLA activity, i.e. both direct and indirect audit work.	30
Average satisfaction survey score (maximum score 5)	4

6.2 The performance indicators do not include the following which were reported

in 2010/11:

- Average variance of time taken per assignment over the agreed budget.
- Average number of calendar days between end of fieldwork and issue of draft report.
- Average number of calendar days between draft report issue and management response being received.
- Average number of calendar days between response from management and issue of final report.
- Number of satisfaction surveys returned.

These operational statistics are monitored on a weekly basis by the Head of Audit and Strategic Risk. Therefore, to improve efficiency these will be deleted from Committee reports unless any significant exceptions or issues arise.

7. External Audit

7.1 External Audit scope covers TWITA's financial statements, value for money and the conduct of public business. TWITA's external auditor is Deloitte and Internal Audit will liaise with them if appropriate.

8. Further comments by the:

- **Clerk** (none);
- **Treasurer** – the Treasurer has seen this report and is satisfied with its contents
- **Legal Advisor** (none);
- **Director General** (none).

9. Background Papers

All appropriate background papers to support this report are retained by Internal Audit.

10. Contact Officer (s)

Philip Slater – Head of Audit and Strategic Risk – telephone 0191 2116511
Ian Pattison – Principal Auditor – telephone 0191 2116885

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Appendix I - Strategic Audit Plan 2011/12 to 2013/14 (including the Annual Internal Audit Plan 2011/12)

Risk Driver / Source	Risk Description	Audit	Audit Scope	2011/12	2012/13	2013/14	Comments
Strategic Risk Register	Opportunities presented by Smart Ticketing Initiative (NESTI).	North East Smart Ticketing Initiative	To assess the adequacy and effectiveness of TWITA's governance arrangements in place for the NESTI project.	7	5	-	Initial implementation in 2011/12 annd follow up in 2012/13.
Strategic Risk Register	Efficiency targets 2008 to 2011 set at unrealistic level if they include Concessionary Fares resulting in technical failure to achieve targets for efficiencies on ITA levy spend and adverse publicity / external criticism as a result.	Budgetary Control	To assess the adequacy and effectiveness of budgetary control arrangements including delivery of efficiency targets.	7	-	5	Bi annual review to confirm ongoing effectiveness.
Strategic Internal Audit Plan	n/a	Treasury Management	To assess the adequacy and effectiveness of arrangements for monitoring ITA cashflow and managing available funds.	4	4	4	
Strategic Risk Register	Insufficient funding for Concessionary Fares resulting in restricted ITA ability to fund other transport services, reduction in some services and adverse publicity.	Concessionary Travel	To assess the adequacy and effectiveness of TWITA's governance arrangements in place for setting concessionary fares policies and monitoring of delivery.	4	7	-	High level review in 2011/12 with more detailed work in 2011/12 .
Strategic Risk Register	Ineffective Performance Management leading to ineffective decision making and inappropriate use of resources	Performance Management	To ensure that performance standards are adequately and effectively established, monitored and reported appropriately.	-	6	-	
Strategic Internal Audit Plan	n/a	Tolls Income and Payments to the Concessionaire	To assess the adequacy and effectiveness of controls in place for tolls income and subsequent payments to the Concessionaire.	-	-	4	
Strategic Risk Register	Equalities issues not fully considered in policy formulation and other activities of the ITA, resulting in potential legal challenge and/or failure to deliver ITA vision and objectives.	Equalities	To assess the adequacy and effectiveness of TWITA's equalities policies and integration with policy development.	-	-	4	
Annual Governance Statement	n/a	Risk Management	To assess the adequacy and effectiveness of risk management arrangements.	-	-	5	
Audit Committee	n/a	Audit Committee	Preparation of Internal Audit progress reports, annual opinion, attendance at Standards and Audit Committee.	3	3	3	
Requirement included in CIPFA Code of Practice for Internal Audit	n/a	Audit Planning and Follow Up	Consultation and preparation of the annual audit plan. Follow up on the implementation of audit recommendations.	1.5	1.5	1.5	
Internal Audit Annual Opinion Report	n/a	Financial Systems Testing	Review of TWITA transactions when undertaking audit work on NCC's financial systems used by TWITA.	0.25	0.25	0.25	
Internal Audit	n/a	Advice and Guidance	Provision of general advice and guidance to TWITA officers in respect of new system developments, control, risk and governance arrangements. Attendance at TWITA Officer Co-ordination Group.	3.25	3.25	3.25	Based upon assumpiton of attendance at bi-monthly operational meetings and not policy sessions.
Total				30	30	30	

Risk Driver / Source	Risk Description	Audit	Audit Scope
Strategic Risk Register	Future public spending restrictions, impacting on key ITA projects and ability to deliver policy objectives.	Strategic Business Planning	To assess the adequacy and effectiveness of business planning arrangements.
Strategic Risk Register	Joint Service Budget priorities may not fully support current ITA activities, leading to additional and unexpected financial demands on the ITA and the five Councils.	Financial Planning.	To assess the adequacy and effectiveness of financial planning including setting the levy.
Strategic Risk Register	Failure to provide effective challenge and governance to the Metro Re-invigoration Project.	Metro Re-invigoration Project	To assess the adequacy and effectiveness of TWITA's governance arrangements in place for the Metro re-invigoration project.
Strategic Risk Register	Impacts of NTC construction poorly managed or perceived as poorly managed resulting in damage to community relations and reputation damage to the ITA	New Tyne Crossing Project	To assess the adequacy and effectiveness of TWITA's governance arrangements in place for the New Tyne Crossing Project.

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Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

DATE: **18th March 2011**

TITLE: **WHISTLEBLOWING, FRAUD AND CORRUPTION POLICY UPDATES**

REPORT OF **Deputy Clerk and Treasurer**

Not Confidential

District Implications across Tyne and Wear

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1. Summary / Purpose of Report

1.1 This report presents updated versions of the Tyne and Wear Integrated Transport Authority (TWITA) Public Interest Disclosure (Whistleblowing) Policy as well as the Fraud and Corruption Policy.

2. Introduction / Background

2.1 Following an Internal Audit review of TWITA Corporate Governance in September 2010, the review recommended that the TWITA Public Interest Disclosure (Whistleblowing) Policy as well as the Fraud and Corruption Policy should be updated to reflect best practices and current contact details.

2.2 This work has now been completed and internals telephone and external contacts details have been updated.

2.3 The updated policies are attached for your information. The updated policies reflect the current best practices for both the Public Interest Disclosure (Whistleblowing) as well as the Fraud and Corruption polices and practices.

3. Recommendations

3.1 To review and recommend these updated polices to the Tyne and Wear Integrated Authority.

4. Next Steps

4.1 If agreed, then the updated policies will be presented to the Tyne and Wear Integrated Transport Authority on the 24th March 2011 for final approval.

5. Further comments by the:

- **Clerk** (none)

- **Treasurer** (none)
- **Legal Advisor** (none)
- **Director General** (none)

6. Background Papers

6.1 All background papers to support this report are retained by within the Audit and Strategic Risk Service.

7. Contact Officer (s)

7.1 Philip Slater, Head of Audit and Strategic Risk, Newcastle City Council (211 6515)

Ian Pattison, Principal Auditor, Newcastle City Council (211 5679)

Tyne and Wear Integrated Transport Authority

PUBLIC INTEREST DISCLOSURES ("WHISTLEBLOWING") POLICY

POLICY FOR THE CONFIDENTIAL REPORTING OF CONCERNS

1 INTRODUCTION

1.1 This policy reflects the Authority's commitment to good practices, to valuing its staff and seeking continuous improvement in service delivery.

1.2 Employees are often the first to realise that there may be something wrong within the Authority. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Authority. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than to report what may just be a suspicion of malpractice.

1.3 The Authority is committed to the highest possible standards of openness, probity and accountability. In line with that commitment it expects its employees and others that it deals with who have concerns about any aspect of the Authority's work to come forward and voice those concerns. It is recognised that most cases will have to proceed on a confidential basis.

1.4 This policy document makes it clear that you can do so without fear of victimisation, subsequent discrimination or disadvantage. The policy is intended to encourage and enable employees to raise concerns within the Authority rather than overlooking a problem or 'blowing the whistle' outside.

1.5 The policy applies to all employees and those contractors working for the Authority on Authority premises, for example, agency staff, builders and drivers. It also covers suppliers and those providing services under a contract with the Authority in their own premises, for example their homes. The Authority will seek to ensure that as part of its procurement processes this policy is brought to the attention of such external contractors, suppliers and service providers (described in this policy as "Contractors").

1.6 These procedures are in addition to the Authority's complaints procedures, grievance procedure, Policy on Fraud and Corruption and other statutory reporting procedures.

1.7 This policy has been discussed with the relevant trade unions and professional organisations and has their support.

1.8 References in this policy to "the Monitoring Officer" mean the Head of Corporate Law of Newcastle City Council who is the Legal Adviser and Monitoring Officer to the Authority.

2 AIMS AND SCOPE OF THIS POLICY

2.1 This policy aims to:

- make you feel confident to raise concerns and to question and act upon concerns about practice;
- give you ways to raise your concerns and receive feedback on any action taken;
- guarantees that you receive a response to your concerns and ensures that you are aware of the process to follow if you are not satisfied; and
- reassure you that you will be protected from possible reprisals or victimisation.

2.2 There are existing procedures in place if you have a grievance relating to your own employment or consider that you are being harassed due to your race or sex, or if you are concerned about health and safety risks, including risks to the public as well as to other employees. Indeed you are under a legal obligation (as notified to you in corporate health and safety policy statements), to report to your supervisor or manager any work situation which you consider to represent:

- A danger to the health and safety of yourself, fellow employees or members of the public; or
- A shortcoming in the Authority's arrangements for health and safety.

2.3 If you are reluctant to raise such health and safety concerns with your supervisor or manager, or if you have raised them and are concerned about the response, then arrangements exist for you to raise the health and safety concerns with the Lead Authority's Health and Safety Service based in the Chief Executive's Directorate and/or with Health and Safety Representatives from the relevant trade union.

This policy is intended to cover concerns that fall outside the scope of other procedures. These include:

- conduct which is an offence or a breach of law;
- disclosures related to miscarriages of justice;
- health and safety risks, including risks to the public as well as other employees;
- damage to the environment;
- the unauthorised use of public funds;
- fraud and corruption;
- sexual or physical abuse of clients;
- any attempt to prevent disclosure of any of the above, or
- other conduct which gives you cause for concern.

2.4 Thus any serious concerns that you have about any aspect of service provision or the conduct of your staff or members of the Authority or others acting on behalf of the Authority can be reported under this policy. This may be about something that:

- makes you feel uncomfortable in terms of known standards, your experience or the standards you believe the Authority subscribes to; or
- is against the Authority's Standing Orders and policies; or
- falls below established standards of practice; or
- amounts to improper conduct.

2.5 This policy supplements and does not replace the corporate complaints procedure, or the grievance procedure and other procedures established to deal with aspects of harassment i.e. sexual, racial harassment, and with health and safety concerns.

3 SAFEGUARDS

3.1 Harassment or Victimisation

The Authority is committed to good practice and high standards and aims to be supportive of its employees.

The Authority recognises that the decision to report a concern can be a difficult one to make. However uncovering malpractice will be doing a service to the Authority. You will be doing your duty to your employer and those for whom you are providing a service.

The Authority will fulfil its responsibility to ensure that you are NOT harassed, victimised or otherwise disadvantaged when you raise a concern. Any employee who engages in any form of victimisation or harassment against you as a result of raising a concern may be subject to disciplinary action.

Allegations by an employee who is the subject of disciplinary investigations or proceedings concerning the conduct of those proceedings can only be raised through the disciplinary appeals procedures.

3.2 Confidentiality

All concerns will be treated in confidence wherever possible and every effort will be made to preserve your anonymity if you so wish. You may need however to come forward as a witness, but if you wish to be supported by a representative of your choice then this would be available to you.

3.3 Anonymous Allegations

This policy encourages you to put your name to your allegation whenever possible. Concerns expressed anonymously are much less powerful but the Authority will consider them so far as is possible or practicable.

3.4 Untrue Allegations

If you make an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against you. If however, you make an allegation maliciously or for personal gain, disciplinary action may be taken against you.

4 HOW TO RAISE A CONCERN

4.1.1 Procedure for Authority employees

As a first step, you should raise concerns with your immediate manager or their manager. This depends however, on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice, for example, if you believe that your immediate manager or their managers are involved, you should approach your Director. The manager receiving notification of concerns under this policy will inform the Monitoring Officer that a confidential report has been received and provide a copy. If the concern relates to financial irregularities or failures of financial controls the manager receiving the report must immediately notify the Deputy Clerk and Treasurer.

4.1.2 Concerns may be raised verbally or in writing. If you make a written report please use the attached pro-forma. Reports should be sent to your immediate manager or their superior or to the Director and a copy sent to the Monitoring Officer.

4.1.3 Procedure for Contractors

As a first step, you should normally raise concerns with your manager, who will then inform the Authority's lead officer who is dealing with the particular contract. If you do not have a manager, you should raise your concerns direct with the Authority's lead officer. This depends on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice. For example, if you believe that your manager or the Authority's lead officer is involved, you should approach the Monitoring Officer direct. Otherwise, the Authority's lead officer receiving notification of concerns under this Policy will inform the Monitoring Officer that a confidential report has been received and provide a copy. If the concern relates to financial irregularities or failures of financial controls the Authority's lead officer receiving the report will also immediately notify the Head of Audit and Strategic Risk of Newcastle City Council. (Tel 2116511)

4.1.4 Concerns may be raised verbally or in writing. If you make a written report you should, if possible, make it using a similar report form to the attached pro-forma. A copy of any report you send to your manager or the Authority's lead officer should also be sent to the Monitoring Officer for monitoring purposes.

4.2 The Monitoring Officer is responsible for the maintenance and operation of this policy and will monitor how the complaint is handled and ensure that the requirements of this policy are fulfilled.

4.3 The earlier you express the concern the easier it will be to take action.

4.4 Employees of the Authority can obtain advice and guidance on how matters of concern may be pursued from the Authority's Head of Strategic HR, Room 5a, Civic Centre, Tel 2115226. Employees of the Authority and Contractors can get confidential, independent advice from the charity Public Concern at Work on 0207 404 6609. Their website is at www.pcaw.co.uk.

You may wish to consider discussing your concern with a colleague first and you may find it easier to raise the matter if there are two (or more) of you who have had the same experience or concerns.

4.5 You can invite your trade union or professional association representative or a friend to be present during any meetings or interviews in connection with the concerns you have raised.

4.6 Concerns can be raised through your trade union.

5 *HOW THE AUTHORITY WILL RESPOND*

5.1 The Authority will respond to your concerns, and it will be necessary to investigate your concerns but this is not the same as either accepting or rejecting them.

5.2 Within *3 working days* of a concern being raised, you will be sent a written response:
• acknowledging that the concern has been received;

• indicating how we propose to deal with this matter;
• giving an estimate of how long it will take to provide a final response;
• telling you whether any enquiries have been made;
• supply you with information on staff support mechanisms.

The Monitoring Officer will be sent a copy of this response.

5.3 Where appropriate, matters raised may:
• be investigated by management, internal audit, or through the disciplinary process;
• be referred to the police or other statutory agencies;
• be referred to the external auditor.

5.4 In order to protect individuals and those about whom concerns are raised, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations which fall within the scope of specific procedures (for example, child protection or discrimination issues) will normally be referred for consideration under those procedures.

5.5 Some concerns may be resolved by agreed action without the need for investigation. If urgent action is required this will be taken before any investigation is conducted.

5.6 The amount of contact between the individual considering the issues and you will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, the investigating officers, will seek further information from you.

5.7 Where any meeting is arranged, and this can be off-site if you so wish, you can be accompanied by a trade union or professional association representative or a friend.

5.8 The Authority will take steps to minimise any difficulties which you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings the Authority will arrange for you to receive advice about the procedure.

5.9 The Authority accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, you will be informed of the outcomes of any investigation.

6 THE RESPONSIBLE OFFICER

6.1 The Monitoring Officer has overall responsibility for the maintenance and operation of this policy. That officer maintains a record of concerns raised and the outcomes (but in a form which does not endanger your confidentiality) and may report as necessary to the Authority, but in such a way that your confidentiality will be preserved.

6.2 It is the responsibility of any manager/Director who receives a whistleblowing report to:
Copy the original report immediately to the Monitoring Officer. The initial written response to the person raising the concern must also be copied to the Monitoring Officer.
In addition any further responses must be copied to the Monitoring Officer, who must as soon as possible also be informed of the outcome(s) of any investigation and any actions instigated as a result.

7 HOW THE MATTER CAN BE TAKEN FURTHER

7.1 This policy is intended to provide you with an avenue within the Authority to raise concerns. The Authority hopes you will be satisfied with any action taken. If you are not satisfied with the outcome of your confidential report you can write to the Clerk and ask for the investigation and outcome to be reviewed. If you remain dissatisfied, and you feel it is right to take the matter outside of the Authority, you may wish to take advice from your trade union, your local Citizens Advice Bureau, any of the external agencies listed in paragraph 7.4 below, or your legal adviser on the options that are available to you.

7.2 One possibility is that you may wish to rely on your rights under the Public Interest Disclosure Act 1998. This Act gives you protection from victimisation if you make certain disclosures of information in the public interest. The provisions are quite complex and include a list of prescribed persons outside of the Authority who can be contacted in certain circumstances. You should seek advice on the effect of the Act from the persons referred to above.

7.3 If you do take the matter outside of the Authority, you should ensure that you do not disclose information where you owe a duty of confidentiality to persons other than the Authority (e.g. service users) or where you would commit an offence by making disclosure. In order to ensure that you do not make any such disclosures you may want to check the position with the Authority's Legal Adviser.

7.4 External Contacts

If for any reason you do not wish to use the internal arrangements set out above, or require additional support and advice, a list of external agencies is given below.

(This is not exhaustive. A fuller list is available in The Public Interest Disclosure (Prescribed Persons)(Amendment) Order 2003 – see www.uk-legislation.gov.uk).

Audit Commission for England and Wales
Tel 020 7828 1212
www.audit-commission.gov.uk

Environment Agency
Tel 08708 506 506
www.environment-agency.gov.uk

Health and Safety Executive
Tel 0845 345 0055
www.hse.gov.uk

Information Commissioner
Tel 0303 123 1113
www.ico.gov.uk

Pensions Regulator
Tel 0870 6063636
www.thepensionsregulator.gov.uk/

Public Concern at Work
Tel 020 7404 6609
www.pcaw.co.uk

Standards Board for England
Tel 0161 8175300
www.standardsforengland.gov.uk

If you are a member of a Trade Union you can also contact them for advice and support. The main local contacts for the Authority are: -

Unison 0191 211 6980
GMB 0191 233 3930
Unite 0845 605 2198

Advice about your rights is also available from: - Citizens Advice Bureau (Newcastle City) 0844 499 4717
Newcastle Law Centre 0191 230 4777

The Authority is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we expect employees and others that we deal with who have concerns about any aspect of the Authority's work to come forward and voice those concerns. It is recognised that most cases will have to proceed on a confidential basis. If you wish to make a report please use this pro-forma.

1 Background and history of the concern (giving the relevant dates).

2. The reasons why you are particularly concerned about the situation.

(Please attach additional sheets if necessary)

3. You are encouraged to put your name to this report. Concerns expressed anonymously are much less powerful but the Authority will consider them so far as is possible. If you feel able to, please give your name and details below.

Name:.....
Directorate (if applicable):.....
Address:.....
.....

Contact Telephone Number:…… Date ……

PLEASE SEND THIS FORM TO YOUR MANAGER, OR ALTERNATIVELY TO THEIR MANAGER OR THE DIRECTOR AS APPROPRIATE. YOU MUST ALSO SEND A PHOTOCOPY OF THE COMPLETED FORM AT THE SAME TIME TO THE HEAD OF CORPORATE LAW AT NEWCASTLE CIVIC CENTRE, FOR MONITORING PURPOSES.

Tyne and Wear Integrated Transport Authority

FRAUD AND CORRUPTION POLICY STATEMENT

1. *THE AUTHORITY'S COMMITMENT*

The Authority is committed to sound corporate governance and supports the general principles of the Government for the conduct of its members and employees, namely:

- selflessness
- honesty and integrity
- objectivity
- accountability
- openness
- leadership
- personal judgement
- duty to uphold the law and
- stewardship
- respect for others

Fraud and corruption cheats the local taxpayers who have the right to expect members and staff to perform their functions in an honest and proper manner.
The Authority seeks in the first instance to prevent fraud and corruption and will take all action necessary to identify any occurrences if suspected. If any such instances are detected they will be investigated in a correct and agreed manner. The Authority pledges to pursue the recovery of losses and the suitable punishment of those responsible.

2. *PREVENTION*

Prevention will be achieved through:

- staffing policies
- making members aware of their responsibilities
- internal control systems and
- liaison with outside agencies

2.1 Staff

As a public employer, the Authority is obliged to maintain, and is entitled to expect, high standards of conduct among its employees to ensure that public confidence in their integrity and impartiality is not undermined. The public is entitled to demand conduct of the highest standard and that staff work honestly and without bias in order to achieve the Authority's objectives.

The Authority recognises that a key preventative measure in the fight against fraud and corruption is to take effective steps at recruitment stage to establish, as far as possible, the propriety and integrity of potential staff. In this regard temporary and contract staff are treated in the same manner as permanent staff.

Managers should ensure that procedures laid down by the Authority's Personnel Officer in the Recruitment and Selection Guidelines and Code of Practice are followed and, in particular, that written references are obtained before employment offers are confirmed.

Staff are expected to follow the Authority's Code of Conduct which includes regulations regarding the registration of interests, gifts and hospitality. Staff are reminded that under the Authority's Standing Orders, they must operate within Section 117 of the Local Government Act 1972 regarding the disclosure of pecuniary interests in contracts relating to the Authority, or the non-acceptance of any fees or rewards whatsoever other than their proper remuneration.

The Authority recognises that the continuing success of its anti-fraud and corruption strategy and its general credibility will depend largely on the effectiveness of its training programmes and the responsiveness of staff throughout the organisation. To facilitate this, the Authority supports the concept of induction and continuing training and staff appraisal, particularly for staff involved in internal control systems, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced. The Authority has in place a Disciplinary Procedure for all categories of its staff and the possibility of disciplinary action against staff who ignore such training and guidance is clear.

2.2 Members

Members are expected to operate honestly and without bias. Their conduct is governed by:

- The Authority's Code of Conduct for Members
- The Authority's Standing Orders

These matters include rules on the declaration and registration of potential areas of conflict between Members' duties and responsibilities on behalf of the Authority, and any other areas of their personal or professional lives. These will be regularly drawn to the attention of Members.

2.3 Internal Control System

The internal control system comprises the whole network of financial, operational and managerial systems established within Newcastle City Council as the lead authority to ensure that objectives of the Integrated Transport Authority are achieved in the most economical and efficient manner.
The Financial Regulations of the Authority provide the framework for financial control. Under Financial Regulations Managers are required to ensure that:

- arrangements, guidelines and procedures for the proper administration of the financial affairs of the Authority are operated in accordance with Financial Regulations;
- the Deputy Clerk and Treasurer is informed where there has been a failure to comply with Financial Regulations or where amendment or revision of a regulation is considered necessary; and

- the Deputy Clerk and Treasurer is informed as soon as possible of any matters involving, or suspected of involving, irregularity in the use of the Authority resources or assets.

On behalf of the Authority, Newcastle City Council's Audit and Strategic Risk service independently monitors the existence, appropriateness and effectiveness of internal controls.

2.4 Liaison

Arrangements are in place now and will continue to develop which encourage the exchange of information between the Authority and other agencies on national and local fraud and corruption activity.

The Authority acknowledges that in order to prevent fraudsters using multiple identities and addresses, it cannot afford to work in isolation and must liaise with other organisations. To this end the Authority has fostered a number of external contacts that include:

- Northumbria Police
- Tyne and Wear District Treasurers
- Universities and Colleges
- UK Border Agency
- DWP
- Jobcentre Plus
- Federation Against Software Theft (F.A.S.T.)

All liaisons are subject to adherence to Data Protection Legislation and regard to the confidentiality of information.

2.5 Partners

Arrangements are in place within partner organisations, Nexus and TT2 to identify, investigate and appropriately report incidents of fraud and corruption which may occur within those organisations.

2.6 Strategy

Arrangements are in place for Newcastle City Council to implement the policy on the Authority's behalf.

3. DETECTION AND INVESTIGATION

Where fraud and corruption still happen, systems should assist in revealing the occurrences and people should be encouraged to do likewise. They must then be investigated in a fair and impartial manner.

3.1 Detection

The array of preventative systems, particularly internal control systems and audit, within the Authority generally should be sufficient in themselves to deter fraud, but they have also been designed to provide indications of any fraudulent activity.

The Authority's staff are an important element in its stance on fraud and corruption and they are positively encouraged to raise any concerns that they may have on any

issues associated with the Authority's activities. They can do this in the knowledge that such concerns will be treated in confidence and properly investigated. If necessary, a route other than a line manager may be used to raise such concerns. Examples of possible routes are:

- Audit and Strategic Risk Service
- Deputy Clerk and Treasurer
- Clerk
- Legal Adviser, as the Authority's Monitoring Officer.

Members of the public are also encouraged to report concerns through any of the above routes or, if appropriate, through the Authority's complaints procedure.

If staff feel unable to raise their concerns through any of the internal routes, then they may wish to raise them through Public Concern at Work (telephone 020 7404 6609), a registered charity whose services are free and strictly confidential.

[See also Policy for Confidential Reporting of Concerns ("Whistleblowing")]

The Code of Conduct requires staff of the Authority to report any illegality or impropriety to their manager or supervisor. Financial regulations require the Deputy Clerk and Treasurer to investigate matters that involve, or may involve, financial irregularity.

3.2 Investigation

Depending on the nature and the anticipated extent of the allegations, Internal Audit will normally work closely with management and other agencies, such as the police, to ensure that all allegations are properly investigated and reported upon and where appropriate, maximum recoveries are made for the Authority. The follow up of any allegation of fraud and corruption received will be through agreed procedures which ensure that:

- matters are dealt with promptly;
- all evidence is recorded;
- evidence is sound and adequately supported;
- all evidence is held securely;
- where appropriate, the police and the Authority's Insurance Officer are notified;
- the Authority's Disciplinary Procedures are implemented; and
- the rules of natural justice are incorporated.

The procedures and reporting lines are an integral part of the Authority's anti-fraud culture that ensures:

- consistent treatment of information about fraud and corruption;
- proper investigation by an independent and experienced audit team;
- the proper implementation of a fraud investigation plan;
- restitution or compensation; and
- the optimum protection of the Authority's interests.

Where financial impropriety is discovered, referral to the police is a matter for the Deputy Clerk and Treasurer, in consultation with the relevant Officers of the Authority. In deciding whether to recommend referral the following factors are taken into account:

- the amount of the loss and duration of the offence;
- the suspect's physical and mental condition;
- voluntary disclosure and arrangement for restitution; and
- the strength of the evidence.

The Authority's Disciplinary Procedures will be used as appropriate irrespective of police involvement.

There is, of course, a need to ensure that any investigation process is not misused and, therefore, any abuse, such as raising unfounded malicious allegations may be dealt with as a disciplinary matter and may leave the complainant open to an action for defamation.

The External Auditor also has powers to investigate independently fraud and corruption and the Authority can make use of these services.

4. SUMMARY

The Authority has a clear commitment to minimising the possibility of corruption and theft or other misuse of public money and assets. It pledges to prevent fraud and corruption but to take all action necessary to identify fraud and corruption if suspected, and pursue the recovery of losses and the punishment of those responsible.

The Authority's employees and Members are expected to have the highest standards of conduct and to be vigilant in combating fraud and corruption in all its guises.

The Authority has implemented a clear network of systems and procedures to assist in the fight against fraud and corruption. These arrangements will keep pace with any future developments, in both preventative and detection techniques regarding fraudulent or corrupt activity that may affect its operation or related responsibilities.

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Tyne and Wear Integrated Transport Authority

ITA STANDARDS AND AUDIT COMMITTEE, 18 MARCH 2011

TITLE: **ANNUAL GOVERNANCE STATEMENT 2010/11 AND LOCAL CODE OF CORPORATE GOVERNANCE – PROCESS UPDATE**

REPORT OF **HEAD OF STRATEGY, PLANNING AND PERFORMANCE, NEWCASTLE CITY COUNCIL**

District Implications - all

1. **Purpose of Report**

1.1 This report updates the Committee on the process for compiling the ITA's Annual Governance Statement (AGS) for 2010/11 and reviewing the Local Code of Corporate Governance (Local Code).

2. **Recommendations**

2.1 Committee is recommended to note the process.

3. **Introduction**

3.1 The ITA must include an Annual Governance Statement (AGS), summarising its arrangements for corporate governance and any significant weaknesses in those arrangements that have arisen during the year in question, in its accounts each year. The AGS must be up to date at the point of the finalisation of the accounts in September, so the review should be completed out at that point although much of the work will have been done a part of the year-end procedures.

3.2 CIPFA's Framework for Delivering Corporate Governance in Local Government recommends that Councils and associated bodies should adopt and maintain a Local Code of Corporate Governance setting out how they comply with the six core principles that should underpin the governance arrangements of all public bodies. Best practice is to review and update the Local Code on an annual basis.

3.3 An internal audit earlier in 2010/11 identified that the process, while itself appropriate and effective, was not formally documented. This documentation has now been produced and is attached as Appendix 1 to this report.

4. **AGS and Local Code Process**

4.1 The process is set out in detail in Appendix 1. Much of the assessment depends on the AGS process of the host authority, supplemented by additional assurances and information from officers working on ITA issues. The outcome will be reported to this Committee as part of the year end process in June. At the same time, consideration will be given to any updates required for the Local Code either as a result of the AGDS work or arising from other developments of the governance framework. Any amendment to the Local Code will also be reported to this Committee in June 2011.

5. **Next Steps**

5.1 The ITA Officer Group will consider the assurances and other information available on the governance and controls of the ITA and recommend a draft AGS and Local Code to this Committee.

6. **Further comments by the:**

- **Clerk** (if any);
- **Treasurer** (if any);
- **Legal Advisor (**if any**);**
- **Director General** (if any**).**

7 Background Papers

7.1 Held by Head of Strategy, Planning and Performance on file Corporate Governance ITA:

ITA Corporate Governance Audit Report September 2010

8 Contact Officer (s)

8.1 Richard Elliott, Head of Strategy, Planning and Performance, Newcastle City Council. 0191 277 7669, richard.g.elliott@newcastle.gov.uk

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Appendix 1: T&W Integrated Transport Authority

Protocol for the maintenance of the Local Code of Corporate Governance and the preparation of the Annual Governance Statement

Introduction

This protocol sets out the process and responsibilities for producing the Authority's Annual Governance Statement and refreshing its Local Code of Corporate Governance each year.

Requirements

The ITA must include an Annual Governance Statement (AGS), summarising its arrangements for corporate governance and any significant weaknesses in those arrangements that have arisen during the year in question, in its draft accounts in June each year. The AGS must also be up to date at the point of the finalisation of the accounts in September, so a further review should be carried out at that point.

CIPFA's Framework for Delivering Corporate Governance in Local Government recommends that Councils and associated bodies should adopt and maintain a Local Code of Corporate Governance setting out how they comply with the six core principles that should underpin the governance arrangements of all public bodies. Best practice is to review and update the Local Code on an annual basis.

General Approach

Because the AGS has to cove the whole year's activity, and because much of the activity that supplies the assurances it requires only takes place at year end, it makes sense to carry out the majority of the required work at that point.

Because the two issues are so closely related, it also makes sense to review the Local Code at the same time as compiling the AGS.

Much of this protocol therefore covers activity undertaken in a relatively short time period as part of year end procedures.

Sources of Assurance

There is a wide range of assurances available to the ITA covering the effective operation of its systems of governance and internal control. The most significant of these are:

Internal audit reports
External audit reports
Scrutiny reports
Budget monitoring
Standards and Audit Committee reports
ITA Officer knowledge

Assurances from the LTP Partnership, Nexus and TT2
Host Authority AGS process and conclusions

Action during the Year

The ITA Officer Working Group meets regularly throughout the year. It considers among other matters any possible issues that may be relevant to the AGS arising from (for example) audit work, budget monitoring or scrutiny work during the year. Any such issues arising are logged for consideration as part of the AGS formulation process at year end.

In the final quarter of the year, the lead officer requests assurances from TT2, Nexus and the LTP Partnership to be submitted at year end.

Action at Year End

Annual Governance Statement

The ITA Officer Working Group meets in May each year, with the precise timing subject to Standards and Audit Committee dates and the deadline for submission of draft accounts, to formulate the draft AGS. A further meeting in September each year confirms that the AGS is up to date at the point of the final accounts being approved.

Any information collated during the year is considered alongside the Lead Authority's emerging AGS, which is informed by the audits of all of its major financial systems. Generally, any issues in Newcastle City Council's AGS that are relevant to the ITA will also appear in the ITA AGS because of the significance of the host authority's systems of governance and control for the ITA.

The year end position for each of the other sources of assurance noted above is also considered, and any issues that could potentially constitute significant weaknesses in control or governance frameworks are discussed and a recommendation arrived at as to whether they should feature in the AGS or not. This review is done in some detail and May, and refreshed in September largely with the results of the audit of the accounts.

Local Code of Corporate Governance

The AGS is an assessment of how effectively the Local Code of Corporate Governance has operated in the year in question. It therefore makes sense to refresh the Local Code as part of the same process that produces the AGS.

Each section of the Local Code identifies a number of actions still required to fully address the six core principles of corporate governance. Progress against these is assessed and any completed actions are moved to the "evidence of compliance" section. Any new actions arising from the AGS process are added into the pending section.

The revised Local Code is then submitted to Standards and Audit Committee for approval.

Lead Officer and Responsible Bodies

Because much of the ITA's governance and control framework depends on the systems and procedures of the host authority and the processes it carries out to produce its own AGS, Newcastle City Council's Head of Strategy, Planning and Performance is the lead officer for the ITA AGS. This officer is supported by the ITA Officer Working Group.

The ITA's Standards and Audit Committee oversees the production of the AGS. The full meeting of the ITA that approves the annual accounts in draft (in June) and as a final version (in September) formally signs off the AGS as part of that process.

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Tyne and Wear Integrated Transport Authority

TITLE:	**Date: 18 March 2011**
	WORK PROGRAMME 2011/2012
REPORT OF	**THE CLERK OF THE AUTHORITY**
	Not confidential
	District Implications: all

1. **Summary / Purpose of Report**

1.1 Attached is a proposed Work Programme for Standards and Audit Committee for 2011/2012.

The Programme is drawn from the Committee's Terms of Reference showing its roles and responsibilities. The Programme provides a structure to the work of the Standards and Audit Committee and enables members to monitor when specific items are likely to be brought forward. This is on the understanding that any unforeseen issues arising e.g. from new legislation would be reported, subject to the usual time constraints.

2. **Recommendations**

2.1 Standards and Audit Committee is recommended to approve the attached Work Programme for 2011/2012.

3 Background Papers

3.1 1) Terms of Reference

2) Previous Work Programme

4 Contact Officer (s)

4.1 Victoria Miller – Democratic Services – telephone 0191 2115118

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Tyne and Wear Passenger Transport Authority
Standards and Audit Committee
Proposed Work Programme 2011/2012

	Terms of Reference item	Details	Meeting 1 (Jun)	Meeting 2 (Sept)	Meeting 3 (Dec/Jan /Feb)
		Standards			
1	6	Consider and determine allegations of members' misconduct (if any)	y	y	y
2	1 - 7	Consider any general conduct issues arising	y	y	y
		Governance			
3	10.4	Review the risk update report (including consideration of the Annual Risk Management Review).		y	y
4	10.5	Review the Authority's anti-fraud and anti-corruption arrangements			y
5	10.6	Review the draft and final Annual Governance Statement and recommend its adoption to the Authority.	y	y	
6	10.8	Review budget monitoring reports for the Authority.	y	y	y
7	10.9	Review the value for money self assessment.	y		
		Audit			
8	11.1	Approve Three Year Strategic Internal Audit Plan, including Annual Internal Audit Plan for the following financial year.			y
9	11.1	Consider Internal Audit progress reports covering audits undertaken, recommendations follow up, performance and investigations (if any)	y	y	y

Tyne and Wear Passenger Transport Authority
Standards and Audit Committee
Proposed Work Programme 2011/2012

10	11.1	Consider Internal Audit Annual Report and Opinion of the Head of audit and Strategic Risk	y		
11	11.2	Consider External Audit Annual Plan			y
12	11.2	Consider External Audit Progress Report	y	y	y
13	11.2	Consider External Audit Inspection Letter			y
14	12.2	Consider External Audit Governance Report		y	
		Accounts			
15	12.1	Approve the Authority's accounting policies			y
16	12.1	Review the draft Annual Report and Accounts and then recommend adoption of the final Annual Report and Accounts by the ITA.	y	y	
		Governance and Risk Management			
17		Annual Review of Standards and Audit Committee's Terms of Reference		y	
18	9.4	Agree Standards and Audit Committee's Annual Report to the Authority	y		