Tyne & Wear Integrated Transport Authority - Standards & Audit Committee

Meeting to be held: Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2 BN on Friday 24 February 2012 at 2.00 pm

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

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

ITA papers are available on the ITA website at www.twita.gov.uk

Please note that members will be invited to agree dates of future meetings

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(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 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.

12. **Dates and Time of the Next Meeting**

Members are invited to agree the following dates of future meetings:

Friday, 20 July 2012 at 2pm
Friday, 14 September 2012 at 2pm
Friday, 22 February 2013 at 2pm

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

16 September 2011
(2.10 - 3.20 pm)

Present:

Chair: Mr Scrimshaw

Councillors: P Wood, Blackburn and Green

Independent Members: Mr Atkinson, Mr Clark and Ms Green

In attendance:

P Woods	- Deputy Clerk and Treasurer, Newcastle City Council
E Goodman	- Senior Accountant, Newcastle City Council
I Poll	- Head of Democratic Services, Newcastle City Council
P Slater	- Head of Audit and Strategic Risk, Newcastle City Council
H Wilson	- Legal Advisor, Newcastle City Council
G Grant	- Senior Transport Policy Officer, Newcastle City Council
V Miller	- Democratic Services Officer, Newcastle City Council
D Wilkinson	- Deloitte

13. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Hall and McElroy.

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

There were no declarations of interest.

15. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting held on 8 July 2011 were approved as a correct record and signed by the Chair.

Matters Arising

(a) Minutes of the previous meeting

The future of the standards regime – Localism Bill – Chapter 5

(Minute 3 (a) refers)

H Wilson provided an update on the progress of the Localism Bill which was at the Report stage in the House of Lords. Following discussions by a cross party group of peers, amendments had been suggested (including provisions for a mandatory code of conduct and standards committees). The Minister subsequently offered discussions ahead of the Third Reading. There was now a possibility that the Bill could be amended to provide for a mandatory code. H Wilson would continue to update the Committee on developments.

The Chair commented that the Newcastle Councillors Lords Beecham and Shipley were arguing the case for a mandatory code and mandatory standards committees in the House of Lords.

(b) Minutes of the previous meeting

ITA Budget 2011/12

(Minute 3 (b) refers)

A member thanked officers for circulating information on elements of the Nexus budget, but asked for a detailed breakdown of the £38.6m paid to commercial operators. The response should also outline the nature of this payment. P Woods confirmed that a large proportion had been used to support concessionary travel for pensioners. Further information and the analysis would be requested for a future meeting. **(Action: Deputy Clerk and Treasurer/Director of Finance and Resources, Nexus)**

A Chair asked for clarification on how commercial bus operators recorded the number of concessionary passengers. It was explained that the operators used a range of technology, and the forthcoming implementation of the NESTI project would also be used for this purpose.

16. **2010/11 AUDIT OF THE ANNUAL REPORT AND ACCOUNTS**

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

D Wilkinson presented the report which outlined the opinion of the external auditors on the ITA Annual Report and Accounts and Value for Money arrangements during the financial year 2010-2011. Members noted the work done, key findings and key audit risks.

The following points were clarified:

- The accounting arrangements for the Tyne Tunnels.

  Additional points noted:

  Members were concerned that this area remained an area with complex accounting arrangements.

D Wilkinson confirmed that the view of Deloitte was not necessarily different to the view of PwC.

The figures were significant and any error in the accounts would be a material error.

P Woods confirmed that the Tyne Tunnels remained a partially private and partially public scheme, which added complexity. Additionally, accounting for the project was also subject to the changes prescribed by the International Financial Reporting.

It was explained that PwC were still used for advice due to their expertise and experience in developing the financial model for the project; their advice would be sought to revise the financial model further to take into account changes in assumptions since it was first developed.

- The Value for Money arrangements. There were no matters of concern.

  Additional points noted:

  To remind about the changes to the financial reporting in accordance with the International Financial Reporting, members would be circulated with a presentation on this subject, which had been delivered to them earlier in the year. **(Action: Senior Accountant).** If required, a simplified document on the newly presented figures would be circulated to members at a later date.

- The audit materiality figure.

  Additional points noted:

  Whilst the material figure was not cumulative, if there were several smaller discrepancies, they would be collated and highlighted.

Additional comments:

A member commented on the significance of Nexus' pension adjustment figure and asked why this had not been highlighted by the external auditors. D Wilkinson explained that whilst Deloitte outlined a number of comments, this particular element was not required as Deloitte did not audit Nexus but instead relied on the work of the Audit Commission who were the external auditors for Nexus. However, this particular matter would be looked into and a brief explanation included within the Group Accounts. **(Action: Deputy Clerk and Treasurer/ Senior Accountant).** This comment would also be raised and explained at the next meeting of the ITA **(Action: Deputy Clerk and Treasurer).**

The following corrections to the report were noted:

Appendix 1: Audit adjustments

- The total amount for Credit/(charge) to current year income statement (£'000) should be 5,232.

- The total amount for Increase/(decrease) in net assets (£'000) should be 3,549.

  Members expressed concern that these figures had not been verified at an earlier stage.

RESOLVED – That the report, corrections and comments be noted and actioned as appropriate.

17. **ANNUAL REPORT AND ACCOUNTS 2010/11**

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

E Goodman presented the Annual Report and Accounts 2010-2011 and confirmed that, overall, the Authority's financial performance had been good. Members noted the Authority's position in relation to spending, budget control, reserves and Tyne Tunnels' reserves. E Goodman explained the adjustments applied to the accounting treatment of NESTI and the new Tyne Tunnel and confirmed that these were purely of a technical accounting nature and did not affect the resources or budget of the Authority.

Comments and recommended corrections:

- Scrutiny Advisory Committee – A Review of 2010/11

  The first sentence of the fourth paragraph should read "Scrutiny Committee attendance, an issue in 2009/10, was less of a problem in 2010/11….." **(Action: Deputy Clerk and Treasurer/Senior Accountant)**.

- A member commented on the usefulness and clarity of the Principal Financial Results section of the report but recommended that the linkage of information between the Accounts (Section 2) and Notes to the Accounts should be improved.

- The Chair asked for a note to be added to the figures on the Tyne Tunnels as in the Comprehensive Income and Expenditure Statement, Accounts (Section 2). **(Action: Deputy Clerk and Treasurer/Senior Accountant).**

- The linkage between the figures for Cost of Services and Note 2 would be updated. **(Action: Deputy Clerk and Treasurer/Senior Accountant).**

- ITA Standards & Audit Committee – A Review of 2010/11

  It was noted that the consideration of any voluntary arrangements with regards to the standards regime was outstanding since the Localism Bill was still in the House of Lords. The Chair asked officers to update the ITA on progress and revised timescales. **(Action: Legal Advisor and Head of Democratic Services)**. Officers confirmed that the Authority would be presented with options for consideration at a relevant stage and this would be reflected in the Committee's work programme.

- Members thanked officers, including from Deloitte for their work on the Annual Report and Accounts during a difficult year.

RESOLVED – That subject to the suggested improvements and corrections the Annual Report and Accounts for 2010-2011 be received and recommended to the ITA.

18. **ANNUAL GOVERNANCE STATEMENT 2010/11**

Submitted: A report by the ITA Officers' Co-ordination Group (previously circulated and copy attached to Official Minutes).

P Woods introduced the Annual Governance Statement 2010-2011.

The Chair thanked officers for including the membership of the ITA Officers' Co-ordination Group in the report.

It was noted that the work on 2011/12 Actions, as in section 5.4 of the report, continued and was being monitored. The progress of these actions would be reported to the Committee and/or the ITA at an appropriate stage.

Members recommended that the last action in 2011/12 Actions should read "Develop and implement an exercise programme for Business Continuity arrangement." **(Action: Head of Strategy, Planning and Performance).**

It was noted that the phrase "significant improvements needed" on page 10 of the bundle had been set out in line with the prescribed wording format and should not be read literally as an indication of the level of concern.

RESOLVED – That subject to the indicated above correction to section 5.4 of the report the Annual Governance Statement be recommended to the ITA for approval on 22 September 2011 as part of the Annual Report and Accounts 2010/11.

19. **REVENUE BUDGET MONITORING REPORT TO AUGUST 2011**

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

P Woods presented the revenue budget monitor report for the period 1 April to 31 August 2011. It was noted that the position was positive and there was nothing adverse to report.

It was clarified that:

- A detailed report on borrowing and investments would be submitted to the September meeting of the ITA. A copy of the report would also be submitted to this Committee at the next meeting. **(Action: Deputy Clerk and Treasurer).** It was noted that borrowing was only used for capital purposes.

- Lending in section 3.5 of the report referred to investment.

- Spend against budget in relation to Supplies and Services fluctuated throughout the year and this was normal. The overall position was - on target.

- In relation to the Tyne Tunnels, the volume of traffic going through the Tunnel was not fully on target. It was envisaged that once the second tunnel was operational, the volume of traffic would increase and generate an increase in tolls income.

RESOLVED – That the report be noted.

20. **INTERNAL AUDIT PROGRESS REPORT**

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

P Slater presented the report which provided information on the progress against the 2011/12 Audit Plan and the position of the implementation of audit recommendations 2010/11.

RESOLVED – That the report be noted.

21. **WORK PROGRAMME (FOR INFORMATION)**

Submitted: The Committee's Proposed Work Programme (previously circulated and copy attached to Official Minutes).

It was noted that the Proposed Work Programme 2011/2012 needed to be updated to reflect the following: **(Action: Democratic Services Officer)**

- Item 3 "Review the risk update report (including consideration of the Annual Risk Management Review)" should be moved to Meeting 3 (February).

- Item 18 "Annual Review of Standards and Audit Committee's Terms of Reference" had been considered by the Committee in July.

- Item (c) was reported at this meeting.

- A report on treasury management should be provided to the Committee.

- A possible new code of conduct would need to be agreed sometime in 2012.

- Generally, the document should identify which items had been considered and which were still outstanding.

Members noted a brief verbal update from D Wilkinson on the complex position of the external audit in the light of the abolishment of the Audit Commission.

RESOLVED – That the Proposed Work Programme be updated.

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

RESOLVED – That the next meeting would be held at 2pm on Friday, 24 February 2011.

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Tyne and Wear Passenger Transport Authority

ITA STANDARDS AND AUDIT COMMITTEE 24 FEBRUARY 2012

TITLE: **Localism Act 2011 – The Amended Standards Regime**

REPORT OF: **The Legal Adviser and Monitoring Officer**

District Implications - all

1. Synopsis

1.1 This report describes the changes made by the Localism Act 2011 to the system for regulating standards of conduct by elected and co-opted members.

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 provisions relating to standards in the Localism Bill at its meeting in March 2011. It subsequently received verbal updates on the progress of the Bill.

The Bill received Royal Assent in November 2011. The main provisions relating to standards are contained in chapter 7 (and schedule 4) of the Localism Act 2011.

This report describes the changes to the standards regime.

Although Standards for England will cease to exist on 31 March 2012, the Government have indicated that other parts of the existing standards regime will remain in place until the end of June. Their current intention is that the new legislative provisions will come into force on 1 July 2012.

3.2 The new system has some mandatory elements, but also has much more scope for local discretion as to what arrangements are put in place. Set out below is an overview of the new provisions:

(a) The Authority will be under **a statutory duty to promote and maintain high standards of conduct** by its members and co-opted members.

(b) The Authority **must adopt a code of conduct** dealing with the conduct of its elected and co-opted members when acting in that capacity. There will be no model code issued by the Government. The code can contain whatever the Authority thinks appropriate, provided it is consistent (when viewed as a whole) with the following seven principles: Selflessness; Integrity; Objectivity; Accountability; Openness; Honesty; and Leadership. However, the code must include such provision as the Authority thinks appropriate for the registration and disclosure of pecuniary and other interests.

Members will no longer be required to give a formal undertaking to comply with the code.

(c) The Authority **must put in place arrangements under which written allegations of breach of the code of conduct can be investigated, and decisions on them can be made.** Alleged failures to comply with the code can only be dealt with under these arrangements, and in no other way. The arrangements can be whatever the Authority chooses except that –

(d) They must include the appointment by the Authority of **at least one Independent Person**, recruited through public advertisement and approved by a majority of Authority members. Existing independent members of Standards and Audit Committee will be ineligible, because the Act excludes from being an Independent Person any person who has been an elected member, co-opted member or officer of the Authority in the previous 5 years.

The Independent Person's role is to give a view on any alleged breach of the code, if asked by either the Authority or any member who is the subject of a complaint. The Authority must ask for the Independent Person's views before finally determining an allegation it has investigated.

(e) The **existing statutory sanctions for a breach of the code of conduct are abolished**. Thus there will be no scope for the partial or total suspension or disqualification of a member. The Authority will be limited to its common law powers, which essentially are (i) formal censure (ii) publication of the breach (in whatever way it might choose) (iii) removing a member from a particular committee (but subject to the approval of the member's political group where the political balance rules apply) and (iv) asking the member to undergo training.

(f) The Monitoring Officer must maintain a **Register of Members' interests**. This will be a new register, not a continuation of the existing one, and (subject to the next paragraph) it is for the Authority to decide what must be included in it. It must be published on the Authority's website, and be available for inspection at all reasonable times.

(g) **Disclosable Pecuniary Interests ("DPIs")** must be notified to the Monitoring Officer for entry on the Register within 28 days of becoming a member. These are still to be defined in regulations to be made by the Government but they will extend not only to a Member's own interests, but also to those of their spouse, civil partner, or other person with whom the member is living as if they were spouses or civil partners, so long as the member is aware that their spouse (etc) has such an interest.

Apart from DPIs, it is for the Authority to decide what other interests should be registered. Oddly, the Act does not require members to keep register entries up to date. The Authority could, however, include such a requirement in its code of conduct; otherwise the Register may be misleading.

Sensitive interests can be withheld from public access of the Register, but only where there is a danger of violence or intimidation.

(h) **A member at a meeting must disclose a DPI in any matter considered at the meeting if the DPI is not registered.** S/he must then register it with the Monitoring Officer within 28 days. If the interest is already registered, the Act does not require the Member to declare it at the meeting but the Authority probably could include such a requirement in its code of conduct.

(i) **If a member at a meeting has a DPI in any item of business, s/he may not take part in the debate, nor vote, unless they have obtained a dispensation.** There is no legal requirement to leave the room, but the Authority could require this in its standing orders.

(j) There is a more generous regime of **dispensations** for members to speak and vote where they have a DPI. At present, the grounds for a dispensation for a prejudicial interest are very limited. In future, members may be given a dispensation either to speak but not vote, or to speak **and** vote, on several grounds, including that it would be in the interests of local people to allow a dispensation, or even that it is simply "appropriate to grant a dispensation". Dispensations may last for up to four years.

(k) It will be a **criminal offence** for a member, without reasonable excuse, to breach the statutory requirements on the registration, and disclosure, of DPIs, as will knowingly or recklessly providing false or misleading information in relation to such interests. Any prosecution requires the consent of the Director of Public Prosecutions. On conviction, a Member may be fined, and/or disqualified for up to five years.

4. New regime – next steps

4.1 It is clear that there are detailed issues to be considered, and decisions to be made, in the design of a new standards system for the Authority from 1 July.

Although the City Council, as lead authority for the ITA, is already taking steps to consider its own arrangements under the new regime, officers are mindful that each of the other four constituent authorities will be producing their own arrangements for dealing with this. Before making any recommendations to the Authority, it is therefore sensible to see what the other authorities are doing and whether there is any consensus.

In addition, it is also difficult to finalise matters without the definition of DPIs from Central Government (as mentioned earlier). At the time of writing this report, the regulations are still outstanding.

4.2 Officers therefore suggest that there is a special meeting of the Committee in April. A report containing detailed proposals for the new local arrangements from 1 July 2012 will be brought to that meeting, with a view to recommendations then being made to the full ITA in May.

With the agreement of the Chair, the suggested date is Friday 20 April at 3pm. The meeting that day will be held in the Mansion House.

5. **Background papers**

5.1 List of Background Papers: - held by Legal Adviser and Monitoring Officer on file OOC-1278

1. Report to Standards and Audit Committee – “The Future of the Standards Regime – Localism Bill – Chapter 5” - 18 March 2011

6. **Contact officer**

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

Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

DATE:	**24 February 2012**
TITLE:	**Annual Audit Letter 2010/11**
REPORT OF:	**Deputy Clerk and Treasurer**
	Not confidential
	District Implications - all

1. Summary / Purpose of Report

1.1 The purpose of this report is to consider the Annual Audit Letter for 2010/11, attached to this report as Appendix 1. The letter is very positive, giving an unqualified audit opinion and contains a small number of minor recommendations.

2. Recommendations

2.1 The Committee is recommended to receive the report and the Annual Audit and Inspection Letter for information and comment.

3. Background

3.1 At the meeting of the ITA on 22 September the Authority approved the final Annual Report and Accounts, subject to the audit of some outstanding items being completed. The audit was completed the external auditor issued an unqualified audit opinion on the Statement of Accounts and an unqualified value for money conclusion were issued by the statutory deadline of 30 September.

4. Recommendations made in Annual Audit Letter

4.1 The Annual Audit Letter provides an overall summary of the external auditor's assessment of the Authority. It draws on the findings and conclusions of the audit and any inspections that have taken place in year.

4.2 The letter recommends that the Authority continue to focus on meeting the financial reporting timetable, as it has done successfully in 2010/11; and to implement the management actions in response to the two minor control observations raised in the external auditor's report to those charged with governance.

These management actions were:

- to implement an additional review to identify creditors relating to TWITA where payments were made before 31 March but the cash does not physically leave the bank account until the new financial year; and

- to review the process of bank reconciliations with a view to improve the clarity of these statements. This observation related to a control finding on the audit of Newcastle City Council, the lead authority for TWITA.

5. Next steps

5.1 The annual audit letter is published on the TWITA website and the Audit Commission website.

5.2 The relevant management actions are being built into the closure of accounts timetable for 2011/12 to ensure the recommendations of the External Auditor are followed up.

6. Further comments by the:

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

7. Background Papers

7.1 Annual Report and Accounts 2010/11

8. Contact Officer (s)

8.1 Eleanor Goodman, Senior Accountant, 0191 277 7518

Deloitte.

Tyne & Wear Integrated Transport Authority

Annual Audit Letter

on the 2010/11 Audit

November 2011

Contents

1. Key messages

In 2010/11 the Authority was required for the first time to prepare its Statement of Accounts in accordance with International Financial Reporting Standards ("IFRS"). The adoption of a Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on IFRS resulted in a number of changes to accounting policies and the restatement of both the 2008/09 and 2009/10 accounts.

The Statement of Accounts was prepared, audited and closed in accordance with the agreed timetable. The Authority achieved a good standard of financial reporting. Several adjustments impacting the reported financial position were processed. These did not impact the overall resources available to the Authority as they represented timing issues in relation to the recognition of the income involved. A number of presentation and disclosure amendments were also made, notably the inclusion of additional disclosures in the group accounts.

We issued an unqualified audit opinion on the Statement of Accounts and an unqualified value for money conclusion on 30 September 2011.

The audit certificate of completion of the audit was also issued on 30 September 2011.

We did not identify any significant weaknesses in the financial reporting systems and control observations noted in our report are considered to be minor. Control observations were reported to the Standards and Audit Committee on 16 September and the full Authority on 22 September 2011 as part of our report on significant matters arising from our audit.

The Whole of Government Accounts return was presented for audit by the deadline set by HM Treasury. We issued an unqualified opinion on the Whole of Government Accounts return on 30 September 2011.

Action needed by the Authority

The Authority needs to:

- continue to focus on meeting the financial reporting timetable; and
- implement the actions noted in the management response for each of the control observations raised in our report to those charged with governance.

2. Purpose, responsibilities and scope

The purpose of this letter

The purpose of this Annual Audit Letter is to summarise the key matters arising from the work that we have carried out in respect of the year ended 31 March 2011.

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

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

Responsibilities of the Auditor and the Authority

The Authority is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on IFRS and other relevant legislation.

We are appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including Integrated Transport Authorities.

As the Authority's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- the Authority's accounts; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on IFRS and other relevant legislation. We conducted our work on the value for money conclusion in line with guidance received from the Audit Commission in respect of other local government bodies for the financial year ended 31 March 2011.

3. The audit of the accounts

Key issues arising from the audit of the accounts

We issued an unqualified opinion on the Authority's 2010/11 accounts on 30 September 2011, in accordance with the deadline set for local government bodies. Our opinion confirms that the accounts present a true and fair view of the financial position of the Authority and its income and expenditure for the year.

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters arising from the audit. A detailed report was discussed with the members of the Standards and Audit Committee on 16 September and the full Authority on 22 September 2011 and there were no key issues to report.

We received a set of draft accounts in advance of the agreed deadline, which were supported by working papers. The finance staff were helpful throughout the process and responded swiftly to all queries. This performance reflects well on the professionalism of the finance staff and their commitment to maintaining high-level controls over financial systems. Amendments were made to the reported financial position both for the current and prior year:

- prior year reserves were increased by £1.7 million and current year income reduced by £2.8 million in relation to contributions received from local authorities for NESTI (North East Smart Ticketing Initiative), in order to bring the accounting treatment into line with IFRS;
- current year income was further reduced by £2.4 million to correct an error in the apportionment of deferred income in relation to the concessionary arrangements for TT2.

These adjustments did not impact the overall resources available to the Authority as they represented timing issues in relation to the recognition of the income in both cases. In addition, some of the disclosures amended and additional group account disclosure notes were included to bring the accounts into line with CIPFA's "Group Accounts in Local Authorities" manual, the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on IFRS and other relevant legislation.

We have considered the financial standing of the Authority as at 31 March 2011. We have assessed this based on current/ongoing expenditure demands, expected grant income and the current cash position of the Authority. The financial standing of the Authority is considered to be satisfactory.

Audit certificate

When our audit is complete we are required to certify the closure of the audit. The audit certificate was issued on 30 September 2011.

4. Value for money

Background

Under the Code of Audit Practice, we are required to give a 'yes/no' opinion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. This is known as the value for money conclusion and is given within our audit report on the Authority's Statement of Accounts.

We are required to assess how well the Authority manages and uses its financial resources by performing an unscored assessment in three theme areas as specified by the Audit Commission in accordance with their guidance for other local government bodies. Within this, we are required to consider arrangements in four of the ten key lines of enquiry (KLOE) in any one year. This assessment will inform our value for money conclusion.

The value for money assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The specific KLOE considered in 2010/11 are:

- sound and strategic financial management:
    - financial planning and financial health;
    - understanding costs and achieving efficiencies;
    - financial reporting;
- good governance:
    - risk management and internal control;
- the management of natural resources, assets and people:
    - none selected for consideration in 2010/11.

Value for money conclusion

Having performed our work in line with guidance received from the Audit Commission we issued an unqualified value for money conclusion for the 2010/11 financial year. This means that we are satisfied that, in the areas reviewed, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the year.

5. Other matters

Audit Commission

On 13 August 2010, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission. Consultation on the new audit framework closed on 30 June 2011 and proposals will be included in a draft bill to allow full Parliamentary scrutiny in due course. The Commission is in the process of undertaking a market tender exercise to outsource the audits currently undertaken by its in-house practice with new appointments expected to apply from the 2012/13 financial year. Audits already outsourced, including this Authority, are not expected to be affected by this change in appointments.

Reports issued

Reports issued during the course of the 2010/11 audit included:

- fee letter in April 2010;
- report to those charged with governance on the 2010/11 audit in September 2011; and
- annual audit letter in November 2011.

Analysis of audit fees

Audit fees charged are as follows:

	2011 £'000	2010 £'000
Total fees for work carried out under the Code of Audit Practice	**37**	**47***

* payable to the Audit Commission, the previous external auditors to the Authority

We have not performed any non-audit services in either the current or prior year. In addition there have been no claims that required certification or additional Value for Money projects undertaken in the current or prior year.

Independence and objectivity

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

5. Other matters (continued)

Approach to local value for money audit work from 2011/12

Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2011/12 onwards. In line with revised guidance from the Audit Commission, we will apply a lighter-touch approach to the VFM audit work and will meet our VFM duty by:

- reviewing the annual governance statement (AGS);
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider any impact on the auditor's responsibilities at the Authority; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

At this stage, no work has been mandated by the Commission for 2011/12. The local risk assessment will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

In line with our statutory duty, we will conclude whether or not there are any matters arising from our VFM work that we need to report. We will report the results of any local VFM audit work and the key messages for the Authority in our annual report to those charged with governance and in the annual audit letter.

6. Closing remarks

This letter has been discussed and agreed with the Deputy Clerk and Treasurer. A copy of the letter will be provided to all members.

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

Deloitte LLP

Deloitte LLP
Chartered Accountants

Newcastle upon Tyne, England

8 November 2011

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

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

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

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

Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

DATE:	**24 February 2012**
TITLE:	**Draft Accounting Policies 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 Authority's draft accounting policies to be applied in the preparation of the Annual Report and Accounts for 2011/12 and to seek confirmation from Standards and Audit Committee that appropriate policies are being applied. The accounting policies are currently draft, subject to review by external audit. Standards and Audit Committee will be notified of any significant changes to these accounting policies at the next meeting.

1.2 This update reflects any changes to the Code of Practice on Local Authority Accounting published by CIPFA ("the Code") and any other changes to UK accounting and reporting standards which may have an impact on the Authority's accounts for the year ending 31 March 2012.

1.3 The full detailed accounting policies can be found in Appendix 1 to this report.

2. Recommendations

2.1 The committee is recommended to:

1. Review the accounting policies; and
2. Approve their use in the preparation of the 2011/12 accounts.

3. Legislative Background

3.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 for the Statement of Accounts to be produced in accordance with proper accounting practices.

3.2 The ITA is therefore required to follow the guidance set out in the Code

4. Changes to the Code for 2011/12

4.1 There are no changes to the 2011/12 Code which will have a significant impact on the Authority's accounts and no changes to the accounting policies which will require restatement of prior year comparative figures.

There have been some minor updates and clarifications which have been incorporated into the accounting policies or which may alter the disclosures within the accounts, and these are set out below.

4.2 The 2011/12 Code confirms that the adaptations of International Accounting Standard (IAS) 20 *Government Grants* apply equally to capital and revenue grants, and provides further clarification on the treatment of revenue grants, which has been built into the accounting policies.

4.3 The guidance relating to the identification and disclosure of related parties has been extended, with definitions being clarified. A review will be undertaken to ensure that all related parties are identified against the guidance, and there is a possibility that this may result in some changes to the disclosure note in the accounts.

4.4 The 2011/12 Code introduces a requirement that, within the annual governance statement, the Authority should include a specific statement on whether the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. This will be built into the ITA's Annual Governance Statement which will be reported to Standards and Audit Committee in July.

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 on Local Authority Accounting 2011/12

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.

Accounting Policies 2011/12 – DRAFT – subject to audit

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, 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 2011/12 (the Code) and the Service Reporting Code of Practice for Local Authorities 2011/12, 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 employee, including holidays, is charged to the accounts of the period within which the employee 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. Its pension obligations relate primarily to former employees.

Accounting Policies 2011/12 – DRAFT – subject to audit

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

The provisions relating to Grants and Contributions apply to both revenue and capital grants and 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.

All ITA leases have been reviewed and are classified as operating leases.

(a) The Authority as Lessee

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

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 2011/12. 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

Accounting Policies 2011/12 – DRAFT – subject to audit

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 and Equipment assets has been calculated by taking the asset value at 31st March 2012, 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:

Freehold Land	n/a
Tyne Tunnels	120 years

Other Infrastructure	40 years

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. In the most recent valuations of the Tyne Tunnels, it was assessed that the although Mechanical and Electrical Services and the Toll Plaza may have an economic life of 20 years, these formed less than 20% of the overall valuation and have not therefore been classed as significant components.

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 Code requires these arrangements to be assessed under an application of the principles within International Financial Reporting Interpretation Committee 12 (IFRIC 12) 'Service Concessions'.

Arrangements fall in the scope of the Application where both of the following 'IFRIC 12' criteria are met:

The public sector entity ('grantor') controls or regulates the services that the operator much provide with the infrastructure, to whom it must provide them, and at what price, and;

The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

For any service concession within the scope of the Application, the grantor will recognise the cost of the property, plant and equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing concession is considered to meet both of the IFRIC 12 Criteria, and the ITA therefore recognises the cost of the new tunnel on its Balance Sheet.

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with IAS 17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However in the New Tyne Crossing Project, TT2 (the Operator) receives a defined proportion of total toll revenue and uses this to meet its cost of constructing and operating the new tunnel and the existing tunnel. The ITA may therefore have no long term obligation to transfer economic resources to TT2, and hence should not recognise a liability.

The provisions within the Payment Mechanism for payment of toll revenue to the operator are as follows:

In each month TWITA pays a Shadow Toll to the Operator; this being a fixed amount per vehicle adjusted for changes in RPI;

Throughout the Term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle type Shadow Tolls;

The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by TWITA. If TWITA varies a Real Toll from its corresponding Formula Toll, the Operator is compensated for the effect of this adjustment on demand.

TWITA therefore has no exposure to any risk and reward associated with the Operator revenue, but only an executory contract to transfer the Operator's share of total revenues to the Operator as it is collected.

It therefore follows from this conclusion that TWITA has no long-term obligation to transfer economic resources to the Operator, since the Operator revenue is in substance transferred directly to it. TWITA therefore should not recognise a long term liability to finance the Project assets.

In relation to such an arrangement, the Code and the Application do not provide clear guidance. However, the guidance notes accompanying the Code suggest that the credit that matches the asset should be a deferred income balance. The ITA has therefore recognised a deferred credit balance, added to as each of Phase 1 and Phase 2 are completed, and equal to the fair value of the asset addition under each Phase. This balance is then released to the Comprehensive Income and Expenditure Statement over the life of the contract.

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. 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.

18. 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.

19. 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.

20. 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.

21. 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).

22. Group Accounts

The ITA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 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.

Accounting Policies 2011/12 – DRAFT – subject to audit

For the 2011/12 accounts, the ITA has fully complied with the requirements of the Code, providing group figures for the 2011/12 accounts and comparators for 2010/11. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

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Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

DATE:	**24 February 2012**
TITLE:	**ITA Budget and Treasury Management Strategy 2012/13**
REPORT OF:	**Deputy Clerk and Treasurer**
	Not confidential
	District Implications - all

1. Summary / Purpose of Report

1.1 The purpose of this report is to provide the Standards and Audit Committee with a copy of the ITA Budget report for 2012/13 and the Treasury Management Strategy and Prudential Indicators.

2. Recommendations

2.1 The Committee is recommended to receive these reports for information and comment.

3. Background

3.1 At the meeting of the ITA on 26 January 2012, the ITA agreed the budget report for 2012/13, and agreed the levy to be set at

3.2 This was the second year of the three year financial strategy agreed for the period 2011/12-2013/14, which involved a 5% reduction in the levy in 2011/12, a further 5% reduction in 2012/13 and a cash freeze in 2013/14.

3.3 At the last meeting of Standards and Audit Committee, members agreed that it would be useful to receive updates on the ITA's Treasury Management and Investments activities. The report attached as Appendix 2 is the 2012/13 Treasury Management Strategy which was agreed by the ITA at its meeting on 26 January 2012.

4. Further comments by the:

- **Clerk** none

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

5. Background Papers

5.1 ITA Budget working papers held by Financial Systems and Accounting

5.2 Treasury Management papers held by Capital Investment and Projects Team

6. Contact Officer (s)

6.1 Eleanor Goodman, Senior Accountant, 0191 277 7518

Ian Richardson, Treasury Management Officer, 0191 211 6524

Tyne and Wear Integrated Transport Authority

Date:	**26 January 2012**
TITLE:	**ITA Budget 2012/13 and Medium Term Financial Strategy**
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 2012/13 and indicative funding requirements for 2013/14.

1.2 The Authority is asked to consider the draft Budget for 2012/13 and to set its levy for 2012/13 at £70,207,132. This represents a reduction of £3,585,285 from 2011/12, and a total reduction of £7,170,570 (10%) compared with 2010/11. The Authority is also asked to agree a Revenue Grant of £66,921,500 to Nexus for 2012/13.

2 Recommendations

2.1 The Authority is recommended to:

a) Approve the ITA and Nexus Revenue Budgets for 2012/13;

b) Approve a levy of £70,207,132 for 2012/13:

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 2010 mid-year population estimates as the basis of the levy allocation, as set out in section 4;

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;

c) Approve the amount of Revenue Grant to Nexus of £66,921,500 from the levy for 2012/13;

d) Approve the minimum revenue provision repayments for borrowed capital expenditure for 2012/13 (attached at Appendix C);

e) Approve a price freeze in relation to the Metro concessionary Gold Card (to remain at £25.00) and the withdrawal of the seasonal product introduced in April 2011, together with the need to ensure that the Gold Card becomes a true annual ticket, eligible for 365 days only, from the day of purchase;

f) Approve a price freeze in relation of the price of the child concessionary ticket (to remain at £1.00 for the All Day Ticket and 50p for the Single Ticket);

g) Note that for future financing purposes, the ITA agrees to withhold up to £1.720m of revenue support to Nexus in 2011/12 in order to part-fund this year's non-metro capital programme; and

h) Note that the 2013/14 Budget will be developed on the basis of a cash freeze in the Levy in line with the third year of the current medium term plan strategy.

3 Background

3.1 When the Districts and the ITA approved its Medium Term Financial Strategy (MTFS) for 2011/12 to 2013/14, it was agreed to deliver a 10% reduction in the levy of £7.171m (£3.585m each year) by April 2013, with a cash freeze for 2013/14. This was to be delivered through a range of efficiency savings, and use of reserves in order to protect services, prior to a full package of more sustainable savings being delivered from 2013/14 onwards. The package of more sustainable savings in relation to the cost of bus services would mainly be delivered by the introduction of a Quality Contract Scheme (QCS) for Tyne and Wear.

3.2 In 2011/12 the levy was also adjusted by £5.672m to allow the Concessionary Travel grant (previously paid directly to the ITA/Nexus but paid to directly to Districts from 2011/12 as part of their Formula Grant) to be passed back to the ITA. The Districts actually received additional grant of £7.107m, with the surplus being retained by Districts as an additional saving of £1.435m as well as the 5% levy reduction of £3.585m.

3.3 The agreed strategy recognised that the majority of costs facing the ITA and Nexus were related to statutory concessionary fares scheme, with the prospect of future cost pressures for concessionary fares and bus services. It also recognised that delivering a QCS is a core component of the MTFS and following consultation with District Leaders, the ITA agreed at its November 2011 meeting to instruct Nexus to prepare a draft QCS as well as exploring with Bus Operators and District Councils the scope for preparing meaningful Quality Bus Partnerships if the outcomes achieved can be shown as being comparable with or exceeding those of a QCS.

4 ITA Levy

4.1 Under the Transport Levying Bodies regulations 1992, the ITA is required to issue a levy proportioned by reference to the total resident population at the relevant date of the area of each District concerned (the relevant date being 30 June in the financial year which commenced two year previous to the levying year).

4.2 Table 1 below sets out the proposed levy for 2012/13 which delivers the agreed saving of £3.585m, with savings for individual Districts of between 3.4% and 5.5%. The variation reflects the impact of changes in the 2010 population estimates.

District	2011/12 Levy	2010 Mid-Year Population Estimates	Restated Levy for 2011/12	5% reduction on 2010/11 base	2012/13 Proposed Levy
Gateshead	12,725,590	191,700	12,634,875	-613,879	12,020,996
Newcastle	18,961,663	292,200	19,258,792	-935,709	18,323,083
North Tyneside	13,152,444	198,500	13,083,061	-635,655	12,447,406
South Tyneside	10,164,465	153,700	10,130,309	-492,192	9,638,117
Sunderland	18,788,254	283,500	18,685,379	-907,850	17,777,529
Total	**73,792,417**	**1,119,600**	**73,792,416**	**-3,585,285**	**70,207,131**

4.3 The ITA has been asked by one of the Tyne and Wear Districts to examine an alternative apportionment basis of the levy for future years, linked more directly to the services provided to each District, rather than the current population split required by regulation.

4.4 This issue will be considered further for future years and any alternative approach would need to be based on sound principles, using robust data and should be a demonstrably better option that the population basis set out in the current regulation. The risk of a legal challenge would also need to be mitigated, which could include a request for a variation to the regulations to give more flexibility to ITAs to determine an alternative approach. Consideration should also be given to the allocation of grant funding by Government which uses population as a basis for allocating most funding between Districts.

4.5 It is intended to complete an examination of this issue in the spring and if there was a majority of authorities in support of examining an alternative approach, the ITA could explore requesting a change to the levying regulations so that it has the power to issue a levy distributed on an alternative basis in future years.

5 The ITA Budget

5.1 Around 86% of the ITA's budget is historic capital financing and pension costs, which are largely fixed, whereas the controllable running costs amount to only around £0.500m – approximately 14% of the ITA's budget and less than 1% of the levy.

Despite this, as part of the 2011/12-2013/14 financial strategy, a full review of all areas of

ITA spend was undertaken, in order to identify savings. In setting the original budget for 2011/12, an overall reduction of 7% was achieved. Further savings have been delivered during 2011/12, and the revised budget indicates that an overall reduction in ITA spend of 9% as compared with 2010/11 will be possible.

Further savings are proposed for 2012/13, mainly in the SLA with the Lead Authority and Financing Charges, which will mean a reduction in ITA spend of 12% over 2 years.

Details are included in Appendix A.

5.2 ITA Support Costs

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. In the preparation of the 2011/12 budget, all SLAs were reviewed to achieve efficiency savings and ensure they provide even better value for money. A reduction of in excess of 10% was included within the budget proposals for 2011/12, with a further 5% reduction included for 2012/13.

5.3 Pension Costs

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 2010 triennial actuarial review were received in March 2011. A reduction in the payments (around £80k for the ITA budget) was possible through extending the repayment period to 16 years with the agreement of the Tyne and Wear Pension Fund. These payments are set to increase by 5.3% for each year of the triennial review period (i.e. 2012/13 and 2013/14), representing the annual salary increase assumption included in the valuation.

5.4 Capital Financing Costs

The majority (around 75%) of the ITA's budget is used to meet Financing Charges. In 2011/12 this is forecast to £2.681m. This is made up of historic debt and transport supported borrowing granted by Government in previous years.

While the ITA holds the debt, borrowed to fund capital transport schemes, the Districts receive the Government grant to support the costs of this borrowing, as part of their Revenue Formula grant. This element of the levy is fully funded by Government Grant.

Borrowing and debt relating to the New Tyne Crossing are held within the Tyne Tunnels trading account, which is self-financing from toll income, and does not impact on the levy.

As debt is paid off and through careful treasury management, Financing Charges are budgeted to reduce in 2012/13 to around £2.562m.

5.5 **Tyne Tunnels Operating Costs**

The Tyne Tunnels trading account reflects the costs of operating the tunnels with the concessionaire. All costs are be funded from toll income and existing reserves, and there is no impact on the ITA levy. There is a possibility that toll income in 2011/12 will be lower than the original estimates, however this means that the usage payment to the concessionaire is also reduced so the position in year remains in surplus. Surpluses are required in order to meet future financing costs associated with the New Tyne Crossing project.

The original Tyne Tunnels budget for 2011/12 included an accounting adjustment that was required under the move to International Financial Reporting Standards (IFRS), which involved changes to the treatment of the usage payment. Although there was no change in cash terms, this adjustment did affect the presentation of the Tyne Tunnel reserves.

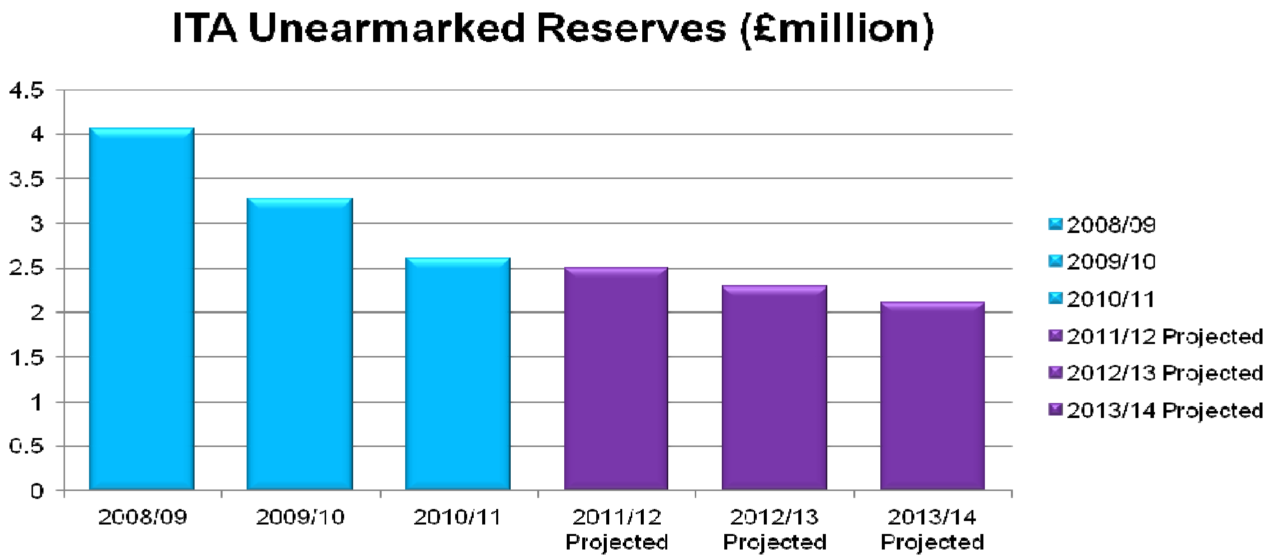
During the last year, the financial model for the New Tyne Crossing project was reviewed and an alternative accounting treatment agreed as part of the 2010/11 closure of accounts.

As a result the adjustments were no longer required, meaning that the 2011/12 forecast position and forecast opening and closing reserves for the Tyne Tunnels look significantly different from the original budgeted position.

5.6 **ITA Reserves**

In setting the budget for 2011/12, £0.180m of ITA reserves were allocated in order to allow an immediate reduction in the levy and bridge the gap while longer-term savings proposals were developed and implemented. Additional efficiencies made in year mean that the likely use of reserves forecast for 2011/12 is now below £0.100m. £0.190m use of reserves is proposed for 2012/13.

As set out in the chart below, the effect of this use of reserves will be to reduce ITA unearmarked reserves to approximately £2.5m at the end of 2011/12, and £2.3m at the end of 2012/13, retaining a minimum working level of £2m by 2013/14. This is considered to be a prudent balance of unearmarked reserves to hold, taking into account the nature and extent of risks faced by the Authority. Separate earmarked reserves are held in relation to the Tyne Tunnels and Metro reinvigoration.



6 The Nexus Budget

6.1 At its October 2011 and December 2011 meetings, the Nexus Executive considered the Nexus budget strategy for 2012/13 to 2013/14 and provided guidance.

6.2 The Nexus budget proposals have therefore been predicated on the following basis:-

- Continuation of the budget strategy previously agreed whereby a cumulative 10% reduction in the levy with effect from 1 April 2012 will be met from a combination of efficiency savings and use of reserves in order to protect services in the medium term, subject to the delivery of a more sustainable package of savings linked to the delivery of the bus strategy

- The budget strategy aims to retain the current operating deficit at around £5m per annum in each of the two financial years 2012/13 and 2013/14

- Budget managers were instructed to deliver 5% savings on 2012/13 ‘controllable budgets’ as previously determined by the Director of Finance and Resources

- Inflationary pressures are also to be contained with the exception of contractual obligations in relation to Pension payments to STMBC, employee PRSP, the Metro Annual Concession Payment to DBTW, bus infrastructure costs and bus secured services contracts

- Retention, albeit at a reduced overall level, of central contingencies to accommodate various budget risks in areas such as Metro High Voltage Power, Concessionary Travel and shortfalls in fare box revenue

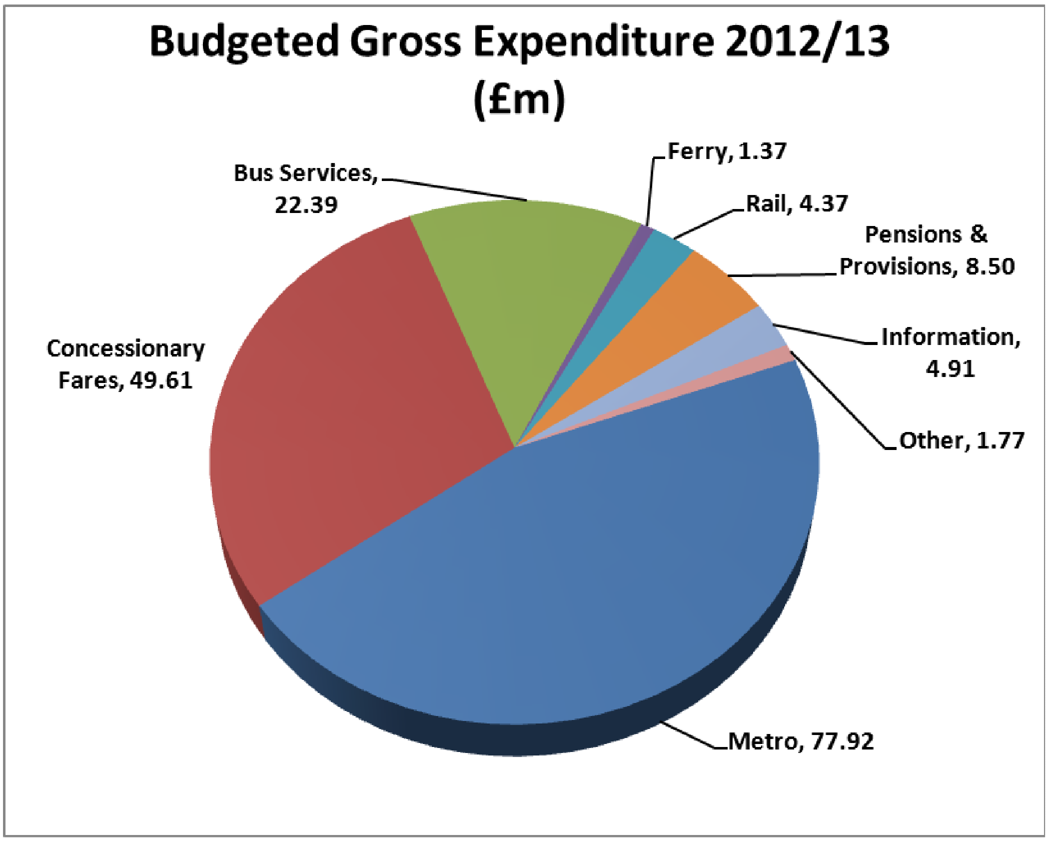
- Metro fares increase linked to RPI +2% (as subsequently adjusted by additional one-off grant funding from DfT)

- Metro concessionary Gold Card price to be frozen with subsequent withdrawal of the seasonal product

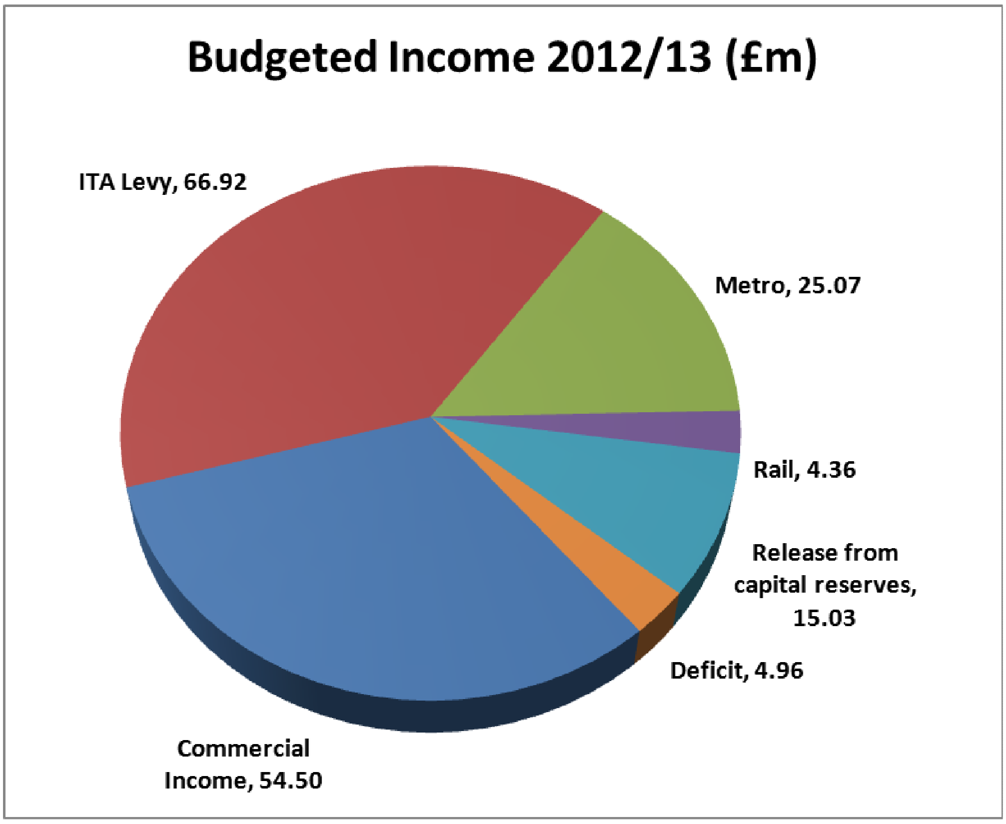
- Child concessionary ticket price to be frozen.

6.3 In line with the reduction in the levy, the ITA reduced its revenue support to Nexus in 2011/12 by 5% to £70.323m; to be followed by a proposed further reduction in 2012/13 to £66.922m, with a cash freeze being delivered in 2013/14.

6.4 Nexus currently has a gross revenue expenditure requirement of £171m, which is funded from a combination of traded income from fare box revenues, Direct Government Grants (including the metro rail grant) and the Levy. An illustration based on the proposed 2012/13 budget of services provided by Nexus is given in the chart below. This shows that the largest areas of gross expenditure are in relation to Metro and Bus services (where a significant element of expenditure is for the reimbursement of concessionary travel):-



6.5 These services are funded as follows:-



6.6 The levy on the district councils is minimised through commercial income and other direct grants, particularly in relation to Metro and the Northern Rail franchise. The release from capital reserves offsets depreciation on those fixed assets previously funded from government grant and Metro is where the majority of these costs are attributable.

6.7 Services which are most impacted by the volatility in the ITA levy payment are therefore Concessionary Travel, which is a largely statutory service relating to bus and secured bus services.

6.8 The sustainability of the reduction in the levy is therefore heavily dependent on being able to deliver long term savings in the cost of the bus network for which a strategy was agreed at the November 2011 meeting of the ITA.

6.9 This strategy has been in development since the ITA approved its medium term financial strategy in January 2011, when reserve funding was earmarked to meet the forecast budget shortfalls in both 2011/12 and 2012/13. However, due to additional cost and efficiency savings that have been made, Nexus has a higher level of reserves which it can draw on to continue the current strategy into 2014/15.

6.10 The original and revised reserves position is set out below:-

Forecast @ January 2011	**£000**	**Forecast @ January 2012**	**£000**
Usable reserves March 2011	12,895	Usable reserves March 2011	15,417
Deficit contribution 2011/12	(1,365)	Surplus 2011/12	1,574
Deficit contribution 2012/13	(5,030)	Deficit contribution 2012/13	(4,955)
Other Earmarked Reserves	(1,500)	Other Earmarked Reserves	(1,500)
Usable reserves March 2013	**5,000**	Usable reserves March 2013	**10,536**
		Deficit contribution 2013/14	**(5,385)**
		Usable reserves March 2014	**5,151**

6.11 Nexus delivered additional cost and efficiency savings in 2010/11 largely due to a moratorium on the filling of vacancies prior to a restructuring of the Nexus business which also had a knock on effect in terms of lower than expected redundancy costs towards the end of the financial year.

6.12 In addition, Nexus has also made further savings in 2011/12 (some of which e.g. the saving in the Metro insurance premium, carry forward as part of the base). The following table illustrates this (NB – figures shown are prior to the allocation of corporate support services overheads):-

	£000	£000
Budgeted Deficit 2011/12		1,365
Metro		
Nexus Rail	(547)	
Operating Concession	(911)	
Ticketing and Gating	(200)	
Insurances	(300)	(1,958)
Bus		
Secured Services	830	
Concessionary Travel	(330)	
Infrastructure	104	604
Corporate & Other		
2010 Pensions Valuation	(738)	
Unutilised Provisions	(600)	
Staffing & Other	(247)	(1,585)
Forecast Surplus 2011/12		**(1,574)**

6.13 This £2.9m movement will result in a surplus of around £1.6m in 2011/12 and for this reason, it is recommended that the ITA withholds up to £1.720m of revenue support in 2011/12 in order to fund part of this year's non-metro capital programme.

6.14 Moving forward however, when comparing the 2011/12 base budget requirement with that of the 2012/13 base requirement, it is evident that significant funding pressures remain, particularly in relation to those services that are totally reliant upon levy funding.

6.15 This is illustrated in the following table – again, using figures prior to the allocation of corporate support services overheads, where savings in the cost of operating Metro, required as part of the funding arrangements brokered with DfT are more than offset by sizeable cost pressures in the bus budget, particularly in the provision of Secured Services where the budget requirement has increased by over 17% since the beginning of 2011/12; something that is clearly unsustainable even in the short term, for which a different approach to the delivery of the bus strategy is being explored:-

	£000	£000
Budgeted Deficit 2011/12		1,365
Metro		
Fare Revenue	(906)	
HV Power	650	
Nexus Rail	(323)	
Operating Concession	(756)	
Insurances	(300)	(1,635)

Bus		
Secured Services	1,598	
Concessionary Travel	363	
Infrastructure	256	2,217
Corporate & Other		
2010 Pensions Valuation	(500)	
Staffing & Other	106	(394)
Levy Reduction 2012/13		3,403
Budgeted Deficit 2012/13		**4,956**

6.16 This leads to a budget position, year on year as summarised in the following table and detailed in the attached Appendix B:-

	2011/12 Forecast	**2012/13 Base**	**2013/14 Base**
	£000	**£000**	**£000**
Total Base Requirement	98,072	101,312	101,693
Funding:-			
Levy	(70,323)	(66,922)	(66,922)
Metro - MRG	(24,734)	(25,074)	(25,025)
Rail - Northern Franchise	(4,589)	(4,361)	(4,361)
Transfer (to)/from Reserves	**(1,574)**	**4,955**	**5,385**

6.17 With usable reserves at March 2012 estimated to be £16.9m, Nexus will be able to release £5.0m in both 2012/13 and 2013/14 as a medium term measure that accommodates the cumulative 10% reduction in the Levy whilst still maintaining current levels of service, in advance of delivering more sustainable savings from 2014/15. In the meantime, Nexus will also examine additional ways to find further savings to help offset inflationary and other cost pressures.

6.18 The importance of delivering further efficiency savings is well understood, and a cash freeze for 2013/14 is a minimum requirement. A sustainable saving can only realistically be achieved if the levy isn't reduced any further beyond the agreed 10% reduction which will have been implemented from April 2012. The £5.0m budget imbalance will need to be eradicated from the base by 2014/15 and delivering the bus strategy is a core component of a budget strategy that seeks to maintain and/or improve bus services by securing better value for money for public expenditure.

7 Risks Contained within the Budget

7.1 There are some medium-term risks within the Financial Plan, which will be monitored and managed by the ITA and Nexus. 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.

8 Background Papers

8.1 ITA and Nexus budget working papers.

9 Contact Officer(s)

9.1 Eleanor Goodman, Senior Accountant (ITA), tel (0191) 277 7518 or

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

APPENDIX A

Integrated Transport Authority Revenue Estimates 2011/12 and 2012/13			
2011/12			2012/13
Original Estimate £000s	Forecast Outturn £000s	Description	Original Estimate £000s
		Integrated Transport Authority/Nexus	
3,649	3,568	ITA Budget	3,477
70,323	70,323	Revenue Support Grant to Nexus	66,922
73,792	**73,891**		**70,399**
(73,793)	**(73,793)**	Levy on Tyne & Wear District Councils	**(70,207)**
180	**98**	Change in ITA Unearmarked Reserves	**192**
		Tyne Tunnels	
13,769	(3,603)	(Surplus) / Deficit on Tyne Tunnels	(2,853)
13,769	**(3,603)**	**Change in Tunnel Reserves**	**(2,853)**

ITA/Tyne Tunnel/Nexus Revenue Balances			
2011/12			2012/13
Original Estimate £000s	Forecast Outturn £000s	Description	Original Estimate £000s
		Opening Balance at 1st April	
(2,590)	(2,600)	Integrated Transport Authority	(2,502)
(11,442)	(12,438)	Metro Re-invigoration Reserve	(12,562)
(21,904)	(40,722)	Tyne Tunnel Reserves	(44,325)
(15,134)	(15,417)	Nexus	(16,991)
(51,070)	**(71,177)**		**(76,380)**
		Movement in Balances during year	
180	98	Integrated Transport Authority	192
1,999	(124)	Metro Re-invigoration Reserve	2,024
13,769	(3,603)	Tyne Tunnel Reserves	(2,853)
1,365	(1,574)	Nexus	6,455
17,313	**(5,203)**		**5,818**
(33,757)		**Closing Balance at 31st March**	
		being	
(2,410)	(2,502)	Integrated Transport Authority	(2,310)
(9,443)	(12,562)	Metro Re-invigoration Reserve	(10,538)
(8,136)	(44,325)	Tyne Tunnel Reserves	(47,178)
(13,769)	(16,991)	Nexus	(10,536)
(33,757)	**(76,380)**		**(70,562)**

Integrated Transport Authority

1 ITA Budget

Net Expenditure

Item No.	Description	2011/2012 Original Estimate	2011/2012 Forecast	2012/2013 Original Estimate
		£	£	£
	ITA Administration			
1.1	Staffing and charge for servicing officers	301,500	289,980	285,720
		301,500	289,980	285,720
1.2	Audit Fees	32,600	30,000	29,340
1.3	Members allowances and expenses	86,300	86,300	86,300
1.4	Accommodation charges	6,090	6,120	6,120
1.5	Subscriptions	33,000	31,450	29,740
1.6	Conferences	1,000	1,000	1,000
1.7	Travel expenses and subsistence	3,000	3,000	3,000
1.8	IT development	22,000	22,000	22,000
1.9	Printing and postage costs and professional services	15,200	15,200	15,200
1.10	Advertising	2,050	5,000	2,000
1.11	Scrutiny Committee	4,700	4,700	4,700
		205,940	204,770	199,400
	Total	507,440	494,750	485,120
1.12	Pensions			
	Pension deficiency payments	510,000	432,180	455,090
1.13	Financing Charges			
	Financing Charges	2,662,360	2,681,090	2,561,720
		3,679,800	3,608,020	3,501,930
1.14	Income			
	Interest on Revenue Balances	(31,000)	(40,000)	(25,000)
	Net Expenditure on ITA Budget	3,648,800	3,568,020	3,476,930

Integrated Transport Authority

2 Tyne Tunnel and New Tyne Crossing

Net Expenditure

Description	2011/2012 Original Estimate	2011/2012 Forecast	2012/2013 Original Estimate
	£	£	£
Tyne Tunnel Ongoing Costs			
TT2 Contract			
Toll Income	(15,000,000)	(13,980,000)	(19,400,000)
Usage Payments *	6,336,800	4,646,000	9,400,000
	(8,663,200)	(9,334,000)	(10,000,000)
Other			
Employees	32,810	32,810	32,810
Pensions	588,410	499,030	525,480
Other Expenses	55,390	55,390	55,390
New Tyne Crossing Support Services	145,000	145,000	145,000
NTC Community Fund	10,000	10,000	10,000
Financing Charges	5,832,900	5,389,100	6,700,460
Interest on Finance lease *	16,106,000	-	-
Interest on Tunnel Balances	(338,000)	(400,000)	(322,000)
Total Expenditure	22,432,510	5,731,330	7,147,140
(Surplus)/Deficit on existing Tyne Tunnels	13,769,310	(3,602,670)	(2,852,860)

* The original Tyne Tunnels budget for 2011/12 included an accounting adjustment that was required under the move to International Financial Reporting Standards (IFRS), which involved changes to the treatment of the usage payment. Although there was no change in cash terms, this adjustment did affect the presentation of the Tyne Tunnel reserves. During the last year, the financial model for the New Tyne Crossing project was reviewed and an alternative accounting treatment agreed as part of the 2010/11 closure of accounts.

As a result the adjustments were no longer required, meaning that the 2011/12 forecast position and forecast opening and closing reserves for the Tyne Tunnels look significantly different from the original budgeted position.

Nexus - Revenue Budget 2011/12 to 2013/14				
2011/12			**2012/13**	**2013/14**
Budget £000	**Forecast £000**		**Budget £000**	**Forecast £000**
46,808	46,477	Concessionary Travel	47,196	46,905
32,617	30,178	Metro	34,080	34,192
873	864	Ferry	848	848
4,371	4,570	Rail	4,370	4,370
11,012	11,639	Bus Service Delivery	12,709	13,000
2,859	2,947	Bus Infrastructure	3,146	3,146
2,640	2,848	Information and Promotion	2,749	2,749
1,135	1,013	Business Development	1,190	1,190
102,315	**100,536**	**Total Operations**	**106,288**	**106,400**
47	47	Deregulation Liabilities & Add. Costs	47	47
6,490	5,602	Pensions & Provisions	5,849	6,119
1,908	1,904	Corporate & Democratic	1,855	1,855
110,760	**98,072**	**Total Costs**	**114,039**	**114,421**
(300)	(340)	Investment Income	(300)	(300)
(9,677)	(9,677)	Net Movement in Capital Reserve	(12,428)	(12,428)
100,783	**98,072**	**Total Nexus Requirement**	**101,311**	**101,693**
(99,418)	(99,646)	**Grants**	(96,355)	(96,306)
1,365	(1,574)	**Net (Surplus)/Deficit**	4,956	5,387
(1,365)	1,574	**Transfer to/(from) Reserves**	(4,956)	(5,387)
0	**0**		**0**	**0**

TYNE & WEAR INTEGRATED TRANSPORT AUTHORITY ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT FOR 2011/12 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 fifth 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 MRP guidance offers 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 2012/13 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. 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.

The ITA has no supported capital expenditure which requires borrowing in 2011/12 and 2012/13, as from 1 April 2008 the Integrated Transport allocation has been provided 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 is 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.

APPENDIX 2

Tyne and Wear Integrated Transport Authority

Date:	**26 January 2012**
TITLE:	**Treasury Management Strategy 2012/13**
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 The purpose of this report is for the Authority to approve the Treasury Management Strategy and Indicators for 2012/13 and the revised Treasury Management Code of Practice.

The report also contains background information about the required legislation and guidance, and economic context and the Authority's current and expected Treasury portfolio.

2. Recommendations

2.1 The Authority is recommended to:

- Adopt the 2011 version of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice
- Adopt the revised Treasury Management Policy Statement
- Approve the Treasury Management Strategy for 2012/13
- Approve the Treasury Management Indicators for 2012/13, including the Operational Boundary and Authorised Limit for borrowing
- Approve the Prudential Indicators for 2012/13 included at Appendix 1

3. Introduction

3.1 In March 2010 the Authority adopted the Chartered Institute and Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice Fully Revised Second Edition 2009* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

3.2 The Institute published a revised version of the CIPFA Code in November 2011 in light of the additional financial freedoms available to local authorities in the Localism Act 2011. The Authority is therefore asked to formally adopt the *Treasury Management in the Public Services: Code of Practice 2011 Edition.* The new Code of Practice requires some amendments to the Authority's Treasury Management Policy Statement, and the Authority is asked to formally adopt the new policy statement at Section 12.

3.3 In addition, the Department for Communities and Local Government (CLG) issued revised guidance on Local Authority investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

3.4 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

4. Economic Context

4.1 The UK economy is continuing its weak recovery from the 2008/09 recession, with GDP growth forecast to be just 0.9% in 2011 and 0.7% in 2012 according to the Office of Budget Responsibility. Government spending cuts, rising unemployment and uncertain export markets are conspiring to keep demand low and a "double dip" recession cannot be ruled out. Consumer price inflation, which peaked at 5.2% in September, is beginning to fall and this is expected to continue into 2012/13 as one-off factors like the 2010 VAT increase and fuel price rises fall out of the annual comparison.

In these circumstances, the Bank of England is unlikely to raise the Bank Rate until the final quarter of 2012 and additional quantitative easing is seen by many as being more likely than rate increases in the near future. However, once a more robust recovery appears to be taking root, the Bank is likely to prefer to gradually raise interest rates earlier, rather than waiting too late and needing to make a sharp correction.

4.2 The Eurozone sovereign debt crisis remains a major driver of market sentiment and with the UK seen as a something of a safe haven, gilt yields and hence PWLB rates have fallen markedly this year. Assuming that there is some resolution to the crisis, long-term rates are likely to climb back to more normal levels in 2012/13.

A second UK recession or a European sovereign default would see short and long term interest rates remaining lower for longer, while a faster economic recovery and a bold solution to the Eurozone crisis would likely see rates rise more quickly.

5. Interest rate forecasts

5.1 *Sterling Consultancy Services central interest rate forecast – November 2011*

	Bank Rate	1 month LIBOR	3 month LIBOR	12 month LIBOR	25 year PWLB
Current	0.50	0.73	1.01	1.79	4.06
Q1 2012	0.50	0.70	1.00	1.75	4.20
Q2 2012	0.50	0.70	1.00	1.70	4.40
Q3 2012	0.50	0.75	1.00	1.80	4.50
Q4 2012	0.75	0.85	1.05	1.90	4.50
H1 2013	1.00	1.10	1.25	2.00	4.60
H2 2013	1.50	1.60	1.75	2.50	4.70
H1 2014	2.00	2.10	2.25	3.00	4.80
H2 2014	2.50	2.60	2.75	3.50	4.90

HM Treasury Survey of Forecasts – November 2011

	Average annual Bank Rate %			
	2012	2013	2014	2015
Highest	1.1	2.6	3.0	3.7
Average	0.6	0.9	1.7	2.7
Lowest	0.5	0.5	0.9	1.4

For the purpose of setting the budget, it has been assumed that any new investments will be made at an average rate of 0.50%, and that new long-term loans will be borrowed at an average rate of 4.50%.

6. Current and Expected Treasury Portfolios

Current portfolio

6.1 The Authority's treasury portfolio as at 31 December 2011 was as follows:

	Principal Amount £m	Interest Rate %
Short-term loans	0	0
Long-term PWLB loans	135.56	4.18
Long-term market loans (excl. LOBOs)	0	0
Long-term market loans (LOBOs)	89.00	4.39
Total Borrowing	**224.56**	**4.26**

Budget implications

6.2 The budget for debt interest paid in 2012/13 is £9.1m, based on an average debt portfolio of £215m at an average interest rate of 4.23%. If actual levels of borrowing and investments, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

7. Investment Strategy

7.1 The Authority may at times hold surplus funds representing income received in advance of expenditure plus balances and reserves held. Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.

7.2 **Investment criteria and limits**

<table>
<tr><th></th><th></th><th>Cash limit</th><th>Time limit</th></tr>
<tr><td rowspan="7">Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody’s and Standard & Poor’s is:</td><td>AAA</td><td rowspan="5">£50m each
(highest limit)
of which no more than £25m over 1 year</td><td>10 years</td></tr>
<tr><td>AA+</td><td>5 years</td></tr>
<tr><td>AA</td><td>4 years</td></tr>
<tr><td>AA-</td><td>3 years</td></tr>
<tr><td>A+</td><td>2 years</td></tr>
<tr><td>A</td><td rowspan="2">£30m each
(lower limit)</td><td>1 year</td></tr>
<tr><td>A-</td><td>6 months</td></tr>
</table>

UK building societies whose lowest published long-term credit rating is A+	*£30m* each	3 months
Money market funds[1] and similar pooled vehicles whose lowest published credit rating is AAA	*£20m* each *(highest limit)*	1 year
UK Central Government (irrespective of credit rating)	unlimited	10 years
UK Local Authorities[2] without credit ratings	*£30m* each *(highest limit)*	5 years

[1] as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003

[2] as defined in the Local Government Act 2003, and similar authorities in Scotland

There is no intention to restrict investments to banks and building society deposits, and investments may be made with any public or private sector organisation providing that it meets the credit rating criteria above. This reflects a lower likelihood that central government will support failing banks following the Independent Commission on banking report, as well as the removal of restrictions on local authority purchases of corporate bonds.

In order that no more than 10% of any available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £50m. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Building societies

No investments will be made with building societies that hold a long-term credit rating lower than A+ or equivalent, due to the increased likelihood of default implied by this rating.

Money market funds

Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Authority. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority.

Funds that offer same-day liquidity and a constant net asset value will be used as an alternative to instant access call accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Foreign countries

No investments in foreign countries will be made. Organisations with substantial ties to more than one country (e.g. banking subsidiaries that are domiciled in one country but are owned in another) will be judged on the lower of the ratings held in the countries involved.

Risk assessment and credit ratings

The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd., Moody's Investors Service Inc. and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Authority's credit rating criteria are set to ensure that it is unlikely that the Authority will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made
- Any existing investments that can be recalled or sold at no cost will be
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it is likely to fall below the above criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

Other information on the security of investments

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of “high credit quality” are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

<u>Non-specified investments</u>

The CLG Guidance defines specified investments as those:

- Denominated in pound sterling
- Due to be repaid within 12 months of arrangement
- Not defined as capital expenditure by legislation
- Invested with one of
  - The UK Government
  - A UK Local Authority, Parish Authority or Community Authority
  - A body or investment scheme of “high credit quality”

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

The total limit on long-term investments and the total limit on non-specified investments is £50m.

7.4 **Liquidity management**

The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

7.5 **Investment strategy for 2012/13**

Surplus funds cover three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned use of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium-term money market funds. Deposits with lower credit quality names will be made for shorter periods only, while deposits with higher quality names can be made for longer durations.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on Local Authority services. Security remains important, as any losses from defaults will impact on the total return, but this can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds may be used to diversify the portfolio. The Authority may consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments.

With short-term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long-term borrowing. In addition to the savings on the interest rate differential, this strategy will also reduce the Authority's exposure to credit risk and interest rate risk.

8. Borrowing Strategy

8.1 The Authority currently holds £224.56m of long-term loans. The balance at 31 March 2012 is forecast to be £215m after new borrowing and maturing loans. The Authority's capital financing requirement (CFR, or underlying need to borrow to finance capital expenditure) as at 31 March 2012 is expected to be £215m, and is forecast to increase to £216m by March 2013. The level of external borrowing is forecast to reflect that position. The following table shows the potential movements in external debt from 2011/12 to 2014/15:

Capital Borrowing	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Opening Balance	156	215	216	212
New Loans	95	4	0	2
Repaid Loans	36	3	4	6
Closing Balance	215	216	212	208

8.2 **Sources of borrowing**

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- Any institution approved for investments above
- Any other bank or building society approved by the Financial Services Authority
- Capital market bond investors
- Pension funds and other corporate investors
- Special purpose companies created to enable joint Local Authority bond issues

8.3 **Planned borrowing strategy for 2012/13**

With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either borrow short-term loans or variable-rate loans. However, with long-term rates forecast to rise in the coming years, any such short-term savings will need to be balanced against the potential longer-term costs.

The Authority has previously raised a significant proportion of its long-term borrowing from the Public Works Loan Board but other sources of finance, such as bond issues and bank loans, may be considered.

Loans that present additional risk to the Authority, such as lender's option borrower's option (LOBO) loans will be considered but the risk associated with such instruments will be fully assessed before any decision to borrow is made. Variable rate loans will be subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Authority may take advantage of this and replace some higher rate loans with new loans at lower interest rates, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

8.4 **Policy on Use of Financial Derivatives**

Local Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

The Localism Bill 2011 includes a general power competence that removes the uncertain legal position over Local Authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Derivative counterparties

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

9. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators. The Authority is asked to approve the following indicators:

9.1 Security: average credit rating

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	Target
Portfolio average credit rating	A-

For the purpose of this indicator, unrated local authorities are assumed to hold an AA+ rating.

9.2 Liquidity: cash available within three months

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period.

	Target (£m)
Total potential cash available without borrowing	50
Total potential cash available including borrowing	50

9.3 Interest rate exposures

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2012/13	2013/14	2014/15
Upper limit on fixed interest rate exposures	100%	100%	100%
Upper limit on variable interest rate exposures	100%	100%	100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

9.4 Maturity structure of borrowing

This indicator is set to control the Authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within five years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

9.5 Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Authority’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period will be:

	2012/13	2013/14	2014/15
Limit on principal invested beyond year end	£50m	£50m	£50m

9.6 Gross and net debt

The upper limit on net debt indicator was introduced in 2011 and is intended to highlight where the Authority is borrowing in advance of need. Since net debt does not change when loans are borrowed and the proceeds re-invested, it is not yet clear how this indicator will work. CIPFA has not yet produced guidance on its use, and so the Authority is being asked to set a deliberately high limit this year.

	2012/13	2013/14	2014/15
Upper limit on net debt	100%	100%	100%

9.7 Borrowing limits

The Authority is asked to approve the following borrowing limits:

	2012/13	2013/14	2014/15
Operational boundary – borrowing	£235m	£235m	£235m
Operational boundary – other long-term liabilities	£0	£0	£0
Operational boundary – TOTAL	**£235m**	**£235m**	**£235m**
Authorised limit – borrowing	£240m	£240m	£240m
Authorised limit – other long-term liabilities	£0	£0	£0
Authorised limit - TOTAL	**£240m**	**£240m**	**£240m**

10. Other Matters

The CLG Investment Guidance requires the Authority to note the following three matters each year as part of the investment strategy:

Treasury management advisers

The Authority contracts with Sterling Consultancy Services to provide advice and information relating to its investment and borrowing activities. However, responsibility for final decision making remains with the Authority and its officers. The services received include:

- Advice and guidance on relevant policies, strategies and reports,
- Advice on investment decisions
- Notification of credit ratings and changes
- Other information on credit quality
- Advice on debt management decisions
- Accounting advice
- Reports on treasury performance
- Forecasts of interest rates
- Training courses

10.1 Investment training

The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Sterling Consultancy Services and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

10.2 Investment of money borrowed in advance of need

The Authority may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £240m. The maximum period between borrowing and expenditure is expected to be two years, although the Authority does not link particular loans with particular items of expenditure.

11. Other Options Considered

11.1 The CLG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Deputy Clerk and Treasurer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	**Impact on income and expenditure**	**Impact on risk management**
Adopt a narrower definition of "high credit quality" and/or shorter time limits	Interest income will be lower	Reduced risk of losses from credit related defaults
Adopt a wider definition of "high credit quality" and/or longer time limits	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed	Debt interest costs will rise; this is unlikely to be	Higher investment balance leading to a

interest rates	offset by higher investment income	higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

12. Treasury Management Policy Statement

12.1 The Authority's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

Definition

The Authority defines its treasury management activities as: the management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Value for Money

The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

The Authority greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

The Authority will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment Policy

The Authority's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

The Authority will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

13. Background Papers

13.1 Held by Capital Investment and Projects Team

14. Contact Officers

14.1 Ian Richardson, Treasury Management Officer, Capital Investment and Projects Team, ext. 26524. Email i.richardson@newcastle.gov.uk

Iain Duncan, Senior Accountant, Capital Investment and Projects Team, ext. 26684. Email iain.duncan@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

Prudential Indicators

The Authority is required to agree a set of prudential indicators each financial year. These are set out in the following table:

	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Capital Expenditure (£000)					
New Tyne Crossing	40,535	48,626	5,654	785	0
Nexus: Non-Metro	2,222	1,723	1,435	300	300
Nexus: Metro	46,539	40,127	46,007	35,805	40,384
LTP Grants to Districts	961	921	1,243	1,243	2,820
TOTAL	**90,257**	**91,397**	**54,339**	**38,133**	**43,504**
Ratio of Financing Costs to Net Revenue Stream (%)					
ITA	4.2%	3.7%	3.6%	3.5%	3.3%
Nexus	6.7%	6.2%	6.1%	5.9%	5.6%
Total from levy	10.9%	9.9%	9.7%	9.4%	8.9%
Tunnels from Tolls	17.9%	39.3%	28.9%	24.3%	24.2%
Net Borrowing Requirement (£000)					
Start of Year	146,000	156,000	215,000	216,000	212,000
Change	10,000	59,000	1,000	-4,000	-4,000
End of Year	**156,000**	**215,000**	**216,000**	**212,000**	**208,000**
Capital Financing Requirement as at 31 March (£000)					
ITA and New Tyne Crossing	78,196	162,999	166,773	165,278	163,028
Nexus	53,316	51,005	48,787	46,657	44,613

Total	**170,150**	**214,404**	**215,560**	**211,935**	**207,641**
Incremental Impact of Capital Investment Decisions (£000)					
Impact on ITA Levy	-154	-147	-172	-105	-101

Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

Date: 24 February 2012
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 2011/12.
- The position on the implementation of audit recommendations.

2. Recommendations

Standards and Audit Committee is recommended to note:

2.1
- Progress against the 2011/12 Audit Plan.
- The position on the implementation of audit recommendations 2010/11 and 2011/12.

3. Introduction / Background

3.1 This report shows Internal Audit activity since the last Committee meeting in September 2011 and summarises the following:

Details	Assessment	Comments
Progress against the Annual Audit Plan 2011/12 (see 4.2)	Satisfactory and on target	1 audit complete, 1 draft report issued, 2 audits in progress and the remaining audit scheduled.
Implementation of recommendations (see 4.3)	Good	No recommendations outstanding.
Internal Audit Performance Indicators (see 5)	Satisfactory and on target.	Performance is in line with targets.

4. Information

4.1 Completed audits

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

Audit	Assessment
North East Smart Ticketing Initiative	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 2011/12 Audit Plan

Audit	Status
North East Smart Ticketing Initiative	Audit complete
Strategic Business Planning	Draft report issued
Budgetary Control	Work in progress – due for completion February 2012
Treasury Management	Work in progress – due for completion February 2012
Concessionary Travel	Planned for March 2012

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 There are no outstanding recommendations relating to TWITA audits. All recommendations for 2010/11 have been fully implemented and no medium or high recommendations have been raised for audits completed in 2011/12.

5. Internal Audit Performance Indicators 2011/12

Internal Audit has a number of internal performance indicators agreed with the Committee. The table below shows the indicators used and our performance in 2011/12 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. (Note 1)	100% (5)	20% (1)
Number of audit days provided in line with SLA activity, i.e. both direct and	30	20

indirect audit work.		
Number of satisfaction surveys returned. (Note 2)	100% (5)	0% (0)
Average satisfaction survey score (maximum score 5).	4	N/A

Note 1
1 audit complete, 1 draft report issued, 2 audits in progress and the remaining audit scheduled. The plan is on target for delivery and there are no resource implications impacting upon its delivery.

Note 2
No audit survey was issued for the audit completed to date. This was due to the officer involved with the review leaving the Authority and no other officers were involved.

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	
North East Smart Ticketing Initiative	To review the adequacy and effectiveness of governance arrangements around the North East Smart Ticketing Initiative (NESTI)	**Good**	0	0	0	Audit complete

Areas of good practice	Areas for further development
• Programme documents are in place which adequately set out the objectives of the programme and provide a robust framework for achieving these • Governance arrangements are robust and documented, and responsibility for delivering the programme has been appropriately delegated • Programme updates are provided at an appropriate level to facilitate decision making	• No high or medium priority findings have been raised

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.

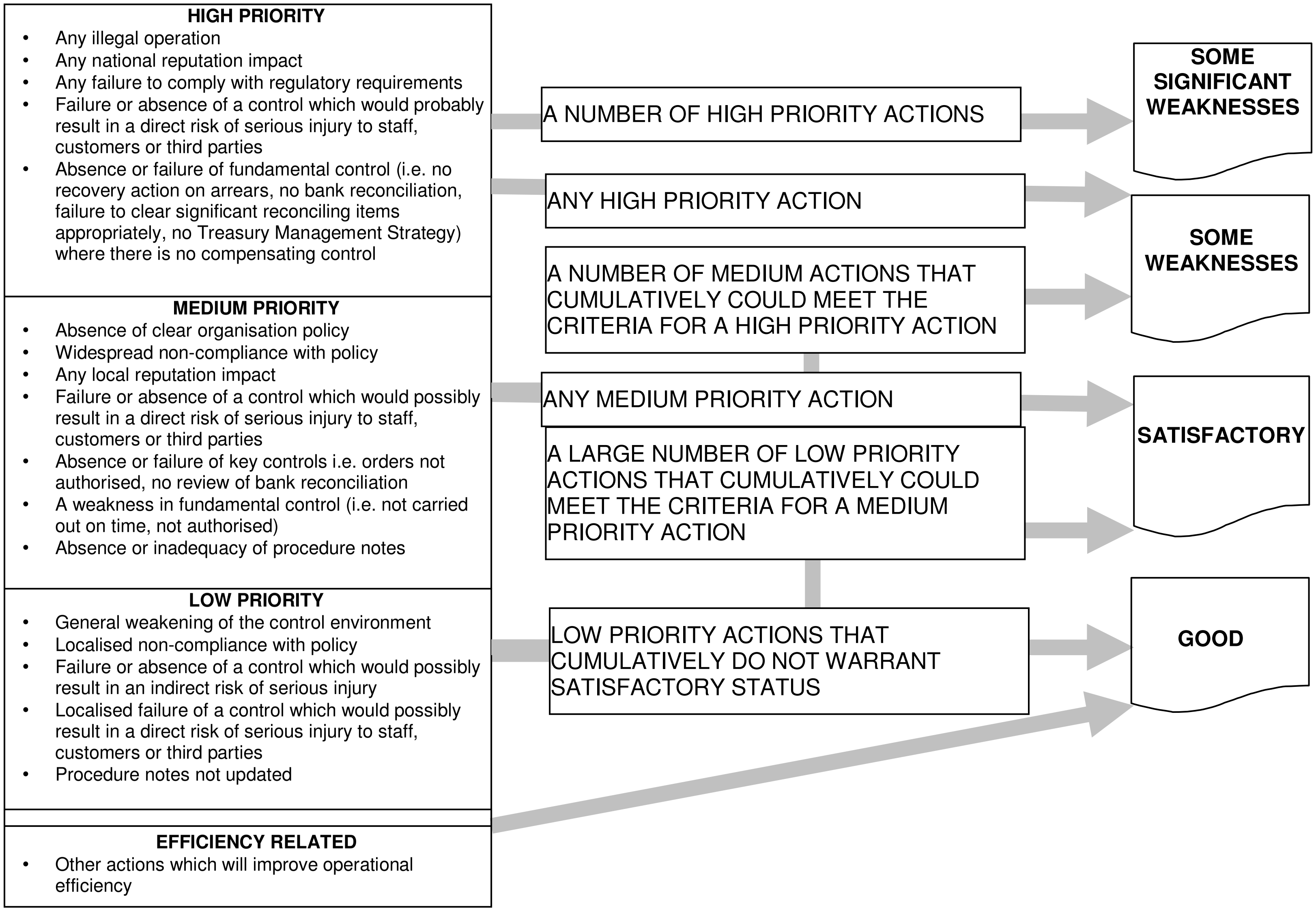
Satisfactory – There is a medium risk that the system will fail to meet its objectives. Slight improvements are required in these areas to increase the adequacy and effectiveness of risk management, control and governance.

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.



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Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

Date:	**24 February 2012**
Title:	**Internal Audit Strategic Plan 2012/13 to 2014/15 (including the Annual Plan 2012/13)**
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 2012/13 to 2014/15 (including the Annual Plan 2012/13).

2 Recommendations

2.1 Standards and Audit Committee is recommended to:

- Discuss the 3 year Strategic Audit Plan 2012/13 to 2014/15 (including the Annual Audit Plan 2012/13) 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 2012/13 Internal Audit Service Level Agreement between TWITA and NCC, approved as part of the budget setting process, provides for a total of 35 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 2012/13 to 2014/15 (including the Annual Internal Audit Plan 2012/13)

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 2012/13 to 2014/15 (including the Annual Internal Audit Plan 2012/13) 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 and ITA officers.
- Considered previous audits undertaken and coverage to provide assurance that all key aspects of TWITA's operations are reviewed over the period. Appendix III to this report highlights audit coverage in the last three years.
- Considered the indicative annual audit plan for 2012/13 included within the Strategic Audit Plan for 2010/11 to 2012/13 agreed by Audit Committee in March 2010.
- 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 2012/13 has changed from the indicative Annual Internal Audit Plan for 2012/13 contained within the Strategic Audit Plan for 2011/12 to 2013/14. A summary of key changes are shown below.

Audit	Reason for change
Tolls Income / Payments to Concessionaire	Combined to form Tyne Tunnels Contract Monitoring and added as an annual audit to ensure contract is monitored effectively.

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. Appendix II to this report highlights potential areas for coverage.

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 2012/13:

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.	35
Average satisfaction survey score (maximum score 5)	4

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

Appendix I – Internal Audit Strategic Plan 2012/13 to 2014/15 (including the Annual Plan 2012/13)

Audit	Audit Scope	2012/13	2013/14	2014/15	Comments
North East Smart Ticketing Initiative	To assess the adequacy and effectiveness of TWITA's governance arrangements in place for the NESTI project.	5	-	5	High level governance arrangements reviewed in 2011/12. Focussed and detailed work in 2012/13 and bi-annually.
Treasury Management	To assess the adequacy and effectiveness of treasury management arrangements, i.e. monitoring ITA cashflows and investment / borrowing activity.	5	5	5	Annual audit.
Concessionary Travel	To assess the adequacy and effectiveness of TWITA's governance arrangements in place for setting concessionary fares policies and monitoring of delivery.	7	-	7	High level review of arrangements undertaken 2011/12. Focussed and detailed work in 2012/13 and bi-annually
Performance Management	To ensure that performance standards are adequately and effectively established, monitored and reported appropriately.	5	-	-	
Budgetary Control	To assess the adequacy and effectiveness of budgetary control arrangements including delivery of efficiency targets.	-	6	-	Reviewed in 2011/12. Bi annual review to assess ongoing effectiveness of arrangements.
Tyne Tunnels Contract Monitoring	To assess the adequacy and effectiveness of contract monitoring arrangements, i.e. receipt of tolls income and payments to the Concessionaire for operating the tunnels.	6	6	6	Annual audit.
Strategic Business Planning	To assess the adequacy and effectiveness of business planning arrangements and ensure they remain valid in light of government policy.	-	-	5	Reviewed in 2011/12.
Equalities	To assess the adequacy and effectiveness of TWITA's equalities policies and integration with policy development.	-	5	-	
Risk Management	To assess the adequacy and effectiveness of risk management arrangements.	-	6	-	
Audit Committee	Preparation of Internal Audit progress reports, annual opinion, attendance at Standards and Audit Committee.	3	3	3	
Audit Planning and Follow Up	Consultation and preparation of the annual audit plan. Follow up on the implementation of audit recommendations.	1	1	1	
Financial Systems Testing	Review TWITA transactions when undertaking audit work on NCC's financial systems.	0.5	0.5	0.5	
Advice and Guidance	Provision of general advice and guidance to TWITA officers and attendance at TWITA Officer Co-ordination Group.	2.5	2.5	2.5	
Total		**35**	**35**	**35**	

Appendix II – Other Areas where Audit Committee may wish to seek assurances

Audit Area	Potential Coverage
Metro Re-invigoration Project	To assess the adequacy and effectiveness of TWITA's governance arrangements in place for the Metro Re-invigoration project.
Local Sustainable Transport Fund (LSTF)	To assess the adequacy and effectiveness of TWITA's governance arrangements for LSTF money. TWITA currently manage a key components bid of £4.9m and have submitted a funding bid for up to £16m.
Local Transport Plan (LTP) Funding	To assess the adequacy and effectiveness of arrangements in place for receipt and allocation of LTP funding (currently receiving and allocate approximately £20m per annum).
Corporate Governance	To assess the adequacy and effectiveness of corporate governance arrangements.

Appendix III - Internal Audit Coverage 2009/10 to 2011/12

Audit	Audit Coverage	2009/10	2010/11	2011/12
Tolls Income	To ensure that there are adequate controls over Tolls Income to provide assurance that TWITA completely, accurately and promptly receives all income due from the Concessionaire.	Good	Good	n/a
Payments to the Concessionaire	To ensure that there are adequate controls over the payments to the Concessionaire to provide assurance that all payments are valid and are completely and accurately recorded.	Good	Good	n/a
Capital Payments	To assess whether all significant risks associated with the capital payments for the New Tyne Crossing are adequately and effectively controlled.	Good	Good	n/a
Corporate Governance	To assess the adequacy and effectiveness of counter fraud and corruption arrangements.	n/a	Satisfactory	n/a
Performance Management	To ensure that performance standards are adequately and effectively established, monitored and reported appropriately.	n/a	Satisfactory	n/a
Treasury Management	To assess whether all significant risks within the treasury management system are adequately and effectively controlled.	n/a	Satisfactory	TBC
Risk Management (New Tyne Crossing)	To assess whether risk management arrangements for the Tyne Tunnels and New Tyne Crossing Project are robust.	Satisfactory	n/a	n/a
Corporate Governance	To assess whether TWITA has adequate and effective controls in place to prepare its Annual Governance Statement on a timely basis.	Satisfactory	n/a	n/a
Strategic Business Planning	To assess the adequacy and effectiveness of business planning arrangements and ensure they remain valid in light of government policy.	n/a	n/a	TBC
Budgetary Control	To assess the adequacy and effectiveness of budgetary control arrangements including delivery of efficiency targets.	n/a	n/a	TBC
North East Smart Ticketing Initiative	To assess the adequacy and effectiveness of TWITA's governance arrangements in place for the NESTI project.	n/a	n/a	Good
Concessionary Travel	To assess the adequacy and effectiveness of TWITA's governance arrangements in place for setting concessionary fares policies and monitoring of delivery.	n/a	n/a	TBC

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TYNE AND WEAR
INTEGRATED TRANSPORT AUTHORITY

Date: 24 February 2012

TITLE: **STRATEGIC RISK UPDATE**

REPORT OF: **THE DEPUTY CLERK AND TREASURER**

Not Confidential

District Implications across Tyne and Wear

1. Summary / Purpose of Report

1.1 This report provides an update on ITA strategic risks and opportunities as set out in the ITA Strategic Risk Strategy.

1.2 The formal risk process adopted by the ITA aims to provide assurance that significant risks and opportunities associated with the delivery of ITA business are identified, monitored and managed.

1.3 The risks and opportunities register has been updated by officers of the ITA taking into account similar registers from partner organisations such as Nexus and Tyne Tunnel Concessionaire (TT2). Significant changes / issues are summarised within this covering report.

1.4 For the purposes of this report we have merged the two areas this register covers (risks and opportunities), they will be represented as a coherent overview.

2. Recommendations

2.1 To review and comment upon the outcomes of the update.

2.2 To identify any further significant risks, mitigating actions or opportunities for consideration.

3. Strategic Risk Update

3.1 This report provides all strategic risks and opportunities (presented in **Appendix A**).

3.2 Since the last full review of the Strategic Risk Register, reported to ITA Standards and Audit Committee in March 2011 a number of events have occurred that have mitigated, removed, or changed the focus of several strategic risks and opportunities:

- a budget review has been undertaken and the levy reductions agreed (5% in 2011/12 and 5% in 2012/13);

- the Government has also confirmed the levels of reduction in funding for both local transport and major transport schemes, including the A19 Junctions – while finalising its projected spend on major schemes (including a new bridge in Sunderland);
- the LTP3 has been finalised and approved by the ITA following the consultation period;
- £4.95m funding has been secured from government to support interventions in local sustainable transport (with a further bid of £16m currently being considered);
- the opening of the New Tyne Crossing and refurbishment of existing tunnel has been completed providing a dual lane crossing in each direction; and
- the Government has released a new White Paper on transport, funding opportunities, and consultations about proposed changes to major scheme funding – while further Command Papers on rail devolution and franchising are expected imminently.

3.3 For this review of the register we have changed the format to reflect changes made by government to the way business cases must be outlined – it seems sensible to consider our risks in the same ways. Therefore the register now outlines risks and opportunities within five broad areas, that will show whether our ongoing work:

- fits with wider public policy objectives – 'strategic' risks and opportunities;
- demonstrates value for money – 'economic' risks and opportunities;
- is financially affordable – 'financial' risks and opportunities;
- is commercially viable – 'commercial' risks and opportunities; and
- is achievable – 'management' risks and opportunities.

4. Next Steps

4.1 The ITA Strategic Risk and Opportunity Register is regularly monitored and fully reviewed/reported to ITA Standards and Audit Committee twice per annum to ensure risk ratings reflect emerging risks and opportunities and that progress is being made in reducing current risks and maximising opportunities. The ITA will also continue to receive strategic risk and opportunity updates on an annual basis.

5. Background Papers

5.1 ITA Strategic Risk Strategy – available from contact officers below.

6. Contact Officer (s)

6.1 Graham Grant, ITA Policy, (0191 211 6011)

Tyne and Wear ITA Strategic Risk Register – February 2012

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

Identification				Analysis					Control measures		
Ref	**Opportunity / Risk description**	**Owner**	**Manager**	**Control mechanisms**	**Likelihood**	**Impact**	**Risk priority**	**Target risk priority**	**Actions to reduce risk**	**Target deadline**	**Action manager**
Strategic											
1	The importance of ITA policies providing partners with a clear strategic direction while also being integrated in any new governance arrangements for transport delivery. In order to do so the ITA must ensure its policies (wherever possible) consider emerging government policies and consultations across various themes, to include: - different modes of transport, - wider geographical areas, - integration with wider policy areas such as the economy, health and wellbeing, climate change and skills.	ITA Clerk	ITA Policy	Effective governance and reporting mechanisms to ensure officers are aware of (and inform Members of) opportunities and risks across different geographical areas that have the potential to impact on the delivery of Tyne and Wear ITA's core aims and objectives – including links to the newly established Local Enterprise Partnership level. Regular ITA Policy seminars bring together the Members of ITA with a number of Officers to discuss future and emerging policy changes / consultations. Strengthened dialogue between Tyne and Wear Leadership Group and ITA facilitated by the ITA Clerk leading on senior / director level discussions. Clerk of the ITA leading on engagement with the Local Enterprise Partnership. ITA Officer Coordination Group meetings. Tyne and Wear Joint Transport Steering Group. ITA, LTP and Nexus Officer Liaison Meetings. ITA working-groups (LTP, Bus Strategy, E&D, Metro). ITA listed in latest consultation from government as a recommended member of new 'Transport Body' for major scheme devolutions. ITA leading on High Speed Rail and classic rail network on behalf of LTP partners, in liaison with wider geographic area such as LEP. Co-ordinated discussion between Leadership and Govt. through all means, including Core Cities, PTEG, etc	Med	Med	Amber (9)	Green (6)	Audit of existing structures to ensure ITA continues to set the strategic direction for Tyne and Wear transport through LTP3 delivery – for example, all officer working groups to have new terms of reference drafted for implementation in April 2012. Clerk of the ITA to take lead in continuing effective engagement with Local Enterprise Partnership and LTP partners (through meetings, forums and workshops/events). Monitor emerging developments around regional/local transport policy, governance and investment planning. Continue to review and refresh ITA Policy statement to reflect new roles defined by Local Transport Act and set new strategic direction (via new vision and objectives). Ensure ITA takes a leading role in the new 'Transport Body' as recommended in current consultation on major scheme devolution. Representation on wider bodies for promotion and implementation of transport policies and lobbying: including, but not exclusively, Core Cities and the Eastern Network Partnership (rail).	March 2012 Ongoing Ongoing May 2012 Ongoing Ongoing	ITA Policy ITA Policy ITA Policy ITA Policy ITA Policy ITA Policy
2	Equalities issues not fully considered in policy formulation and other activities of the ITA, resulting in potential reputational damage, legal challenge and/or failure to deliver ITA vision and objectives.	ITA Deputy Clerk	ITA Policy Nexus Director of Customer Service	Existing equalities Codes of Nexus and Metro. Complaints System. No claims successfully lodged. Establishment of Equalities and Diversity ITA Working Group. Contributed towards NCC directorate Equalities and Diversity Action Plan. Revision of website to ensure easier access in line with best standards. Review of implications of Equality Act 2010.	Low	Med	Green (6)	Green (4)	Equalities assessments for ITA and Nexus Policy and Strategies: • ITA Policies and objectives • Nexus Strategies Review of ITA / Nexus Equalities Scheme(s) Implement changes to equalities obligations as outlined in Equalities Act 2010 – this involves the ITA adopting an existing PTE (Nexus) responsibility.	Ongoing Ongoing As required by govt.	ITA Policy Nexus Head of Customer Service ITA Policy and Nexus lead on equalities

3	Reputational and financial opportunities and threats associated with 'Delivering the Bus Strategy' project.	ITA Clerk Nexus Director General	ITA Policy Nexus Head of Planning Strategy Local authorities	Individual risk register has been created for this project held by Nexus in addition to it being the major change to the latest Nexus Strategic Risk Register. Detail of relationship is handled by Nexus through regular meetings with Bus Operators. Bi-lateral meetings between operators and districts occur periodically. Ongoing dialogue with other PTEs and ITAs (through PTEG, ITA etc). ITA Bus Strategy Working Group established. ITA Clerk holds regular meetings with bus operators.	Med	High	Red (12)	Amber (9)	Ensure risk registers for this project are kept updated and acted upon to maximise the opportunities presented by this work and mitigate against the potential threats. Review governance of project with ITA overseeing this review.	Ongoing – by September 2012 Ongoing – by September 2012	Nexus Director of Customer Service ITA Policy
Economic											
4	Project: Metro Reinvigoration Failure to provide effective challenge and governance to the Metro Re-invigoration Project.	ITA Clerk Nexus Director General	ITA Deputy Clerk Nexus Director of Rail and Infrastructure	Governance process approved within Outline Business Case is being followed. Ongoing dialogue with DfT Phase 1 and 2 approval received Expansion of capital programme reporting to illustrate key performance / project milestones to the ITA and ITA Scrutiny Committee Regular reports by Nexus to the ITA on Metro reinvigoration activity.	Med	Med	Amber (9)	Green (6)	Phase 2 ongoing. Regular reviews of programme to ensure best value for money for passengers. Regular updates at Policy Seminars and ITA Metro sub-committees	Phase 2 – 2010 - 2021	Nexus Director of Rail and Infrastructure ITA Policy
5	Project: New Tyne Crossing Impacts of NTC construction that could result in damage to community relations and reputation damage to the ITA / risk of not associating the reputational benefits from delivery to the ITA.	NTC Project Director	NTC Project Manager	Full Risk Assessment completed of all key phases of project – influenced negotiations of terms (regular reporting to NTC Project Board and ITA as required) Dedicated NTC Project Manager and Project Director as part of Project Governance, based onsite. Project Agreement protects ITA from financial liability for late delay.	Low	Med	Green (6)	Green (6)	New Tyne Crossing programme has been delivered. Overhaul of Tyne Pedestrian and Cycle Tunnels.	Ongoing – legacy June 2013	ITA Policy NTC Project Director
6	Risk of missing the opportunities presented by regional Smart Ticketing initiative (NESTI) to deliver ITA policy objectives around transport goals such as modal shift and network integration – and wider applications.	ITA Clerk Nexus Director General	ITA Policy Nexus Director of Finance and Resources	Update to ITA members at ITA Policy Seminar Regular updates at ITA meetings Funding secured from local authority partners Collaboration Agreement confirmed and governance (overseen by ITA) found to be 'good'.	Med	Med	Amber (9)	Green (6)	Delivery of North East Smart Ticketing Initiative (NESTI) in partnership with Local Authorities, operators and other stakeholders.	Ongoing (review progress in April 2011)	ITA Policy Nexus Director of Finance and Resources
Financial and commercial											
7	Reduction in public sector finance to include: Future public spending restrictions by Central Government, impacting on key ITA projects and ability to deliver policy objectives. Insufficient funding for	ITA Clerk Nexus Director General	ITA Treasurer Nexus Director of Finance and Resources	Funding secured for Metro Reinvigoration Phase 2. Earmarked reserves held to fund Tyne Tunnels and Metro Reinvigoration work. Construction phase of NTC project now complete.	Med	High	Red (12)	Amber (8)	Continue to champion business case for Tyne and Wear schemes through member and officer structures. Continue to lobby & influence Department for Transport and other Government Departments on issues of Tyne and Wear transport challenges and opportunities, local transport	Ongoing – review Dec 2012 Ongoing – review Dec 2012	ITA Clerk, Nexus DG ITA Clerk, Nexus DG

	Concessionary Fares resulting in restricted ITA ability to fund other transport services, reduction in some services and adverse publicity.			£10m funding secured for NESTI project to deliver Smart Ticketing across the North East. Budget agreed for TPCT refurbishment works and built into NTC financial model Successful bid for LSTF funding for key components package - £4.9m DfT funding and £5.9m Local Contributions. Business case submitted for further LSTF funding - £25m programme to promote sustainable access to key employment sites. Representations made to DfT for support for Tyne Tunnel to achieve equitable treatment with other key river crossings such as Humber Bridge and Mersey Gateway. This would allow tolls to be capped at £1.50. Effective Capital programme monitoring to ensure schemes are delivered on budget and provide demonstrable value for money. Concessionary fares: ITA Treasurer involved in Settlement Working Group; Nexus FD involved in PTEG Working Groups					funding and other funding mechanisms/opportunities. Develop evidence outlining the wider economic costs to Tyne and Wear of not delivering priority major schemes. Deliver improvements to Tyne Pedestrian and Cycle Tunnels (inclined lift and other improvements) within allocated budget Tyne Tunnels setting of Concession toll – analysis/modelling to ensure toll set at appropriate level to enable Tunnels to be self-financing over the life of the TT2 contract and beyond. Continue to press for formula change. Issues to be raised over the period with CLG and DfT. Bid to be submitted for resources from Better Bus Areas Fund. Respond to DfT consultation on devolving local major transport schemes – potential opportunity for ITA to take lead on prioritising and funding major schemes. Deputy Clerk and Treasurer to examine opportunities for alterations in the way Concessionary Travel schemes are funded nationally as part the Baseline Formula Review from 13/14.	Ongoing – review Dec 2012 Major Works to be delivered in 2012/13 August 2012 Ongoing – review Dec 2012 Feb 2012 March 2012 March 2012	ITA Treasurer, Nexus Director of Finance NTC Project Director NTC Project Director ITA Treasurer, Nexus Director of Finance ITA Clerk ITA Clerk ITA Deputy Clerk and Treasurer
8	Pressure on Levy from Tyne & Wear Districts Pressures on Tyne and Wear Districts' budgets leading to severe reductions in levy awarded to ITA.	ITA Treasurer	ITA Treasurer	Agreed three year strategy for 2011/12 – 2013/14 with all Tyne & Wear Districts. This provides for a 5% reduction 2011/12, further 5% in 2012/13 and cash freeze 2013/14. Strategy includes use of ITA and Nexus unearmarked reserves – maintaining prudent minimum level. Strategy allows for development of more sustainable savings over the longer term through Quality Partnerships or Quality Contracts scheme Significant efficiency savings delivered on both ITA and Nexus budgets in recent years. Pension costs (significant for ITA and Nexus budget) fixed until 2013/14 under 2010 triennial valuation ITA Budget reviewed and strategy agreed with Tyne & Wear Treasurers, Chief Executives and Leaders Groups.	Med	Med	Red (12)	Amber (8)	Explore options for potential alternative distribution of the levy between Tyne & Wear Districts, as requested by one of the Districts Begin work on agreeing MTFS for 2013/14 and beyond Explore further efficiency savings in ITA and Nexus budgets, e.g. overall model of support to ITA. Work on loans portfolio to take advantage of low rates and reduce financing costs	July 2012 Dec 2012 Nov 2012 Sep 2012	ITA Treasurer ITA Treasurer, Nexus Director of Finance ITA Treasurer, Nexus Director of Finance ITA Treasurer
Management											
9	Ineffective Performance Management leading to ineffective decision making and inappropriate use of resources.	ITA Clerk	ITA Policy	Local Transport Plan and annual progress reports align policies and targets. Nexus Business Intelligence Annual Report of public transport and socio-economic trends Monitoring of LTP2 performance indicators. Various liaison meetings as highlighted in the 'Strategic' section.	Low	Med	Green (6)	Green (4)	Resource planning to ensure the best delivery of ITA Policy.	March 2013	ITA Policy

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10	Opportunity to further develop processes and arrangements for scrutiny to ensure that the ITA remains democratically accountable and transparent, and that the best possible outcomes are delivered for Tyne and Wear.	ITA Clerk	NCC Head of Democratic Services	Scrutiny processes managed and supported through NCC Scrutiny Management Team Budget allocated by the ITA to support and develop the Committee's working methods. Scrutiny work programme reviewed and aligned against key LTP3 policy areas. Scrutiny Advisory Committee evaluates its work annually and prepares an annual report for the ITA. Regular reporting of ITA decisions to scrutiny committee, and feedback of scrutiny minutes to ITA for consideration.	Med	Med	Green (6)	Green (4)	Review scrutiny forward programme in parallel with ITA forward programme to ensure relevant items and issues are considered by scrutiny committee, and that value is added to the ITA process.	May 2012	ITA Policy

ITA STRATEGIC RISK AND OPPORTUNITY MATRIX

		Impact			
		Nil	Low	Medium	High
Likelihood	High				
	Medium			• ITA policies providing partners with a clear strategic direction while also being integrated in any new governance arrangements for transport delivery • Failure to provide effective challenge and governance to the Metro Re-invigoration Project • Opportunities presented by regional Smart Ticketing initiative (NESTI) • Pressure on Levy from Tyne & Wear Districts • Opportunity to further develop process and arrangements for scrutiny.	• Reputational and financial opportunities and threats associated with 'Delivering the Bus Strategy' project. • Reduction in public sector finance including future public spending restrictions and insufficient funding for Concessionary Fares
	Low			• Equalities issues not fully considered in policy formulation and other activities • Impacts of NTC construction • Ineffective Performance Management	
	Nil				

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

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

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

Tyne and Wear Integrated Transport Authority
Standards and Audit Committee
Work Programme

			2011-2012			2012-2013		
	Terms of Reference item	Details	Meeting 1 (8 July)	Meeting 2 (18 Sept)	Meeting 3 (24 Feb)	Meeting 1 July	Meeting 2 Sept	Meeting 3 Feb
		Standards						
1	6	Consider and determine allegations of members' misconduct (if any)	n/a	n/a	Scheduled	Scheduled	Scheduled	Scheduled
2	1 - 7	Consider any general conduct issues arising	n/a	n/a	Scheduled	Scheduled	Scheduled	Scheduled
		Governance						
3	10.4	Review the risk update report			Scheduled		Scheduled	Scheduled
4	10.5	Review the Authority's anti-fraud and anti-corruption arrangements			Scheduled			Scheduled
5	10.6	Review the draft and final Annual Governance Statement and recommend its adoption to the Authority.	√	√		Scheduled	Scheduled	
6		Progress Update on the Annual Governance Statement			Scheduled			Scheduled
7	10.8	Review budget monitoring reports for the Authority.	√	√	Scheduled	Scheduled	Scheduled	Scheduled
8	10.9	Review the draft value for money self assessment.	√			Scheduled		
		Audit						
9	11.1	Approve Three Year Strategic Internal			Scheduled			Scheduled

		Audit Plan, including Annual Internal Audit Plan for the following financial year.						
10	11.1	Consider Internal Audit progress reports covering audits undertaken, recommendations follow up, performance and investigations (if any).	√	√	Scheduled	Scheduled	Scheduled	Scheduled
11	11.1	Consider Internal Audit Annual Report and Opinion of the Head of audit and Strategic Risk	√			Scheduled		
12	11.2	Consider External Audit Annual Plan	√		Moved to July	Scheduled		
13	11.2	Consider External Audit Progress Report	√	√	Moved to July	Scheduled	Scheduled	Scheduled
14	11.2	Consider External Audit Inspection Letter			Scheduled			
15	12.2	Consider External Audit report on the Annual Accounts – draft and final versions	√	√		Scheduled	Scheduled	
		Accounts						
16	12.1	Approve the Authority's accounting policies			Scheduled			Scheduled
17	12.1	Review the draft Annual Report and Accounts and then recommend adoption of the final Annual Report	√	√		Scheduled	Scheduled	

Tyne and Wear Integrated Transport Authority
Standards and Audit Committee
Work Programme

		and Accounts by the ITA.						
		Governance and Risk Management						
18		Annual Review of Standards and Audit Committee's Terms of Reference						
19	9.4	Agree Standards and Audit Committee's Annual Report to the Authority		√				

√ = Done

Also:	**Date of Request:**	**Status:**
a) Concessionary fares.	18 March 2011	A briefing paper was e-mailed to members in September 2011
b) The analysis of the administration and accountability arrangements in relation to grants to bus operators, including grants for concessionary travel.	18 March 2011 and 8 July 2011	A briefing paper was e-mailed to members in September 2011
c) An update on the future of external audit, given the government's decision to abolish the Audit Commission, be brought to the September 2011 meeting.	8 July 2011	A brief update was provided by D Wilkinson (Deloitte) at the September 2011 meeting.
d) Linked to (b): A detailed breakdown of the £38.6m paid to commercial operators.	16 September 2011	A briefing paper was e-mailed to members in November 2011

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