



# Tyne & Wear ITA - Standards & Audit Committee

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Meeting to be held: Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN  
on Friday 17 December 2010 at 2.00 pm

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

The agenda, minutes and reports are also available on the ITA website at  
[www.twita.gov.uk](http://www.twita.gov.uk)

Members are requested to bring their diaries to the meeting

Please note:

It is proposed that, before the start of formal business, two short training/awareness briefings be delivered to members on:

- Risk Management Governance
  - Fraud Risk Governance
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Page

1. **Apologies for Absence**

2. **Declarations of Interest of Members or Officers in any matter to be discussed at the meeting**

(If any Member has a personal/prejudicial interest please complete the appropriate form and hand this to the Democratic Services Officer before leaving the meeting. A blank form can be obtained from the DSO at the meeting).

Members are reminded to verbally declare their interest and the nature of it and, if prejudicial, leave where appropriate at the point of the meeting when the item is to be discussed

3. **Minutes of the Previous meeting held on 17 September 2010** 1 - 8

4. **Recent Publications from Standards for England - Case Review** 9 - 10

Report by Head of Legal Services and Monitoring Officer

5. **Abolition of the Standards Board Regime** 11 - 18

Report by Head of Legal Services and Monitoring Officer

- 6. 2011/12 Budget Update** **19 - 24**  
Report by the Deputy Clerk and Treasurer
- 7. Revenue Budget Monitoring and Treasury Management Update** **25 - 40**  
Report of the Deputy Clerk and Treasurer
- 8. Internal Audit Progress Report** **41 - 48**  
Report by Head of Audit and Strategic Risk
- 9. Standards and Audit Committee - Members Skills' Assessment** **49 - 52**  
Report by Head of Audit and Strategic Risk
- 10. Dates and Time of the Next Meeting**  
Members are invited to consider and approve the following dates of future meetings:  
  
Friday, 18 March 2011 at 2pm  
Friday, 17 June 2011 at 2pm  
Friday, 17 June or 24 June 2011 at 2pm  
Friday, 16 September 2011 at 2pm

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

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## Tyne & Wear ITA - Standards & Audit Committee

17 September 2010  
(2.00 - 3.15 pm)

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### **Present:**

Chair: Scrimshaw  
Councillors: Blackburn  
Independent Members: Atkinson, Clark and Green

### **IN ATTENDANCE**

P Woods - Deputy Clerk and Treasurer  
K Laing - Finance and Resources, Newcastle City Council  
E Goodman - Finance and Resources, Newcastle City Council  
I Poll - Head of Democratic Services, Newcastle City Council  
S Vincent - Transport Policy, Newcastle City Council  
J Dafter - Audit Commission  
J Ritchie - Deloitte  
P Slater - Head of Audit and Risk, Newcastle City Council  
I Pattison - Internal Audit, Newcastle City Council  
V Miller - Democratic Services, Newcastle City Council

### 13. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Green, Stone, McMillan and P Wood.

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

There were no declarations of interests.

### 15. **MINUTES OF PREVIOUS MEETING**

The minutes of the previous meeting held on 25 June 2010 were approved as a correct record and signed by the Chair.

### **Matters Arising**

#### **(a) Minutes of the meeting held on 16 April 2010**

## **Issues which members wish to raise from previous ITA agendas**

### **“Role of Deputy Clerk and Treasurer to the ITA”**

(Minute 3(b) refers)

A member reiterated his concerns about the dual role of the Deputy Clerk and Treasurer. The member was of the view that further consideration should be given to this matter. It was agreed that the Deputy Clerk and Treasurer would speak to the member, who would then feed back to the Committee at its next meeting.

### **Additional points raised by a member of the Committee:**

- The Clerk should be invited to attend meetings of the ITA Standards and Audit Committee at least once a year.
- There were concerns about the Clerk’s attendance at meeting of the full ITA.
- There seemed to be some distance between the Committee and the ITA, and consideration should be given to increasing the attendance of the Committee by officers of the ITA. It was agreed that the Clerk, the Deputy Clerk and Treasurer, the Director of Strategic Housing, Planning and Transportation and the ITA Policy Manager would be invited to attend occasional meetings of the Committee and produce reports. I Poll undertook to assist P Woods with the programming of this action.

### **ACTIONS:**

Paragraph 1 of (a): P Woods and Mr Atkinson as soon as possible.

Bullet point 1: B Rowland.

Bullet point 3: B Rowland, P Woods, H Emms, R Gill and I Poll as soon as possible.

## **16. AUDIT COMMISSION - ANNUAL GOVERNANCE REPORT 2009/10**

Submitted: Report by the Deputy Clerk and Treasurer (previously circulated and also attached to Official Minutes).

J Dafter from the Audit Commission presented the Audit Commission’s Annual Governance Report 2009/2010, giving the opinion on the ITA financial statements and listing the amended areas, with the only significant area being FRS17.

P Woods reminded members about the reasons for requesting to change FRS17, as it related to unrealistic assumptions of pay rises in local government. These had been estimated based on historical data which was out of date and inappropriate. The achieved reduced rate added some flexibility and resulted in a £1.19 million reduction

in the pension liability. Whilst still being high and reliant on the historic trend, the figure was now, to a degree, more realistic.

The Chair and the Deputy Clerk and Treasurer thanked the Audit Commission for their work and wished them well for the future.

**RESOLVED** – That the report be noted.

17. **ANNUAL REPORT AND ACCOUNTS 2009/10 AND ANNUAL GOVERNANCE STATEMENT 2009/10**

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

P Woods presented the Annual Report and audited Accounts 2009/10, Annual Governance Statement 2009/10 and a report that would go to the ITA on 23 September 2010, for members' consideration.

**Comments/Questions**

- Reference was made to the different financial context in which the Authority now operated compared to the previous year. The set of challenges in this year was different.
- A member took the opportunity to seek clarification on the flexibility that was inbuilt into the NESTI Fund, which he then confirmed as helpful.
- In response to a member's question, P Woods clarified that the difference between the budgeted and actual figure for Usage Payments reflected a different accounting arrangement as part of the adoption of the International Financial Reporting standards.
- A member queried the wording of a section of the Annual Report, which described the work of the ITA Scrutiny Committee, indicating that its role as a critical body should be emphasised, together with a clear outline of the undertaken work and achieved results. The member was also concerned that the Annual Review of Effectiveness of the Governance Framework, as in Section 4 of the Annual Governance Statement 2009/10, did not include scrutiny. In response, it was explained that, in the case of the ITA, scrutiny was a voluntary function rather than a statutory duty. The Scrutiny Committee's annual report showed all the reviews that had been undertaken in the year but this detail was compressed for the purpose of summary in the ITA Annual Report. It was further noted that the wording was compliant with the Scrutiny Committee's terms of reference. The term "understanding" was used to reflect a part of the scrutiny's workload aimed at acquiring subject knowledge, which then enabled effective scrutiny. Members agreed that the wording around the work of scrutiny in the Annual Report should be enhanced to better reflect its role and effectiveness. The Deputy Clerk and Treasurer would speak to the Scrutiny Officer to identify whether the wording could be sharpened. The final version of the ITA Annual Report would go to the ITA on 23 September 2010.

- A member reiterated that the Scrutiny Committee should provide advice to the ITA.
- Concerns were also expressed about the attendance at the ITA Scrutiny Committee and members discussed possible routes of tackling this issue. Suggestions included cross-working, self-assessment and training. I Poll advised that the Scrutiny Committee should retain its independence. It was agreed that it could be beneficial if the Chair, Vice-Chair and P Woods/I Poll could meet with the Chair and Vice-Chair of the ITA Scrutiny Committee to discuss the issue of attendance.
- In respect of the ITA Standards and Audit Committee, a member commended the high profile that was given to the Committee in the ITA Annual Report.
- P Woods advised members on the format of the published Annual Report and Accounts, which would be published in a non-glossy format to save money. The Report and Accounts would also be available electronically, including on the Internet. The Chair pointed out the limitations of the Internet option.

**RESOLVED – That:**

- (i) the report be noted;
- (ii) further consideration should be given to improving the wording around the ITA Scrutiny Committee to better reflect its role, work and profile;
- (iii) the Chair, Vice-Chair and P Woods/I Poll would meet with the Chair and Vice-Chair of the ITA Scrutiny Committee to discuss the issue of attendance.

**ACTIONS:**

Bullet point 4: P Woods

Bullet point 6: the Chair, Vice-Chair and Head of Democratic Services

**18. REVENUE BUDGET MONITOR (APRIL 2010 - AUGUST 2010)**

Submitted: Report by the Deputy Clerk and Treasurer (previously circulated and also attached to Official Minutes).

P Woods introduced the report which gave information about the ITA financial position as at 31 August 2010.

**Questions/Comments**

- In response to a member's question, P Woods provided clarification in relation to Interest on Balances, the value for which had not been as yet been reflected and was indicated as 0%, but this would change as the year progressed. The figure of 483 was the forecasted figure.

- P Woods confirmed that the revenue budget monitoring reports would be brought to the Committee on a quarterly basis.
- In respect of Other Expenses, as in Appendix 2, which were marked as “red”, K Laing explained that this was due to the early payment of the insurance for the whole year, which was built into the annual expenditure.

**RESOLVED** – That the report be noted.

**ACTIONS:**

Bullet point 2: P Woods, quarterly.

19. **INTERNAL AUDIT PROGRESS REPORT**

Submitted: Report by the Head of Audit and Strategic Risk (previously circulated and also attached to Official Minutes).

I Pattison presented the report which gave information about the progress against the 2010/11 Audit Plan and the position on the implementation of audit recommendations.

In respect of following up the 2008/2009 recommendations, as referred to in section 4.3.2 of the report, it was explained that the reason for the delay was the ongoing healthy discussion with Nexus about the levels of liability and this matter was the responsibility of the treasury management.

A member pointed out the actual figure for the number of audits completed as part of the delivery of the annual audit plan and queried whether this performance indicator was meaningful and achievable. I Pattison gave reassurance and indicated that, given a reasonable period of time, it was possible to achieve the target. The Chair suggested that in future reports, the text be amended to give members a clearer understanding of performance.

**RESOLVED** – That the report be noted.

**ACTIONS:**

Paragraph 4: I Pattison

20. **STANDARDS AND AUDIT COMMITTEE SELF ASSESSMENT OF EFFECTIVENESS**

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

I Pattison presented the report which informed members about the outcomes of the self-assessment and the proposed action plan.

**Questions/Comments/Discussions**

- A discussion took place around the point of clarification in respect of private meetings that could be held with external and internal auditors. Members were in agreement that any matters should be scheduled for the agenda and discussed in a formal setting. The Chair stated that should any matters arise where officers felt the need to talk privately he could be contacted.
- A discussion also took place around the proposed action to assess members' skills with the aim to develop an appropriate training programme. Whilst agreeing that this would be a useful exercise, members queried the specifics, such as the criteria that would be applied. A member suggested using the team perspective. It was agreed that Internal Audit together with a Legal Adviser and the Head of Democratic Services would co-ordinate this process and identify the skills that the Committee needed, and assess how they were met. The Chair requested that the role of independent members should also be assessed. P Woods invited members to identify areas for any specific training.
- Members discussed the subject of attendance, indicating that there was a lack of explanation and action, and suggested that there should be a provision to exclude members for the non-attendance. A member suggested that it was important to monitor members' attendance and report to the Committee on a regular basis. The Head of Democratic Services would check the attendance for the year. It was also suggested that the Deputy Clerk and Treasurer would raise this issue at the next meeting of the ITA. The Democratic Services Officer would collate the statistics and circulate it to the relevant officers.
- A member commended the self-assessment process and its usefulness. It was confirmed that the same process would be applied the next year. The Chair highlighted the importance of the annual review of progress in relation to the improvements that had been identified in this year.

**RESOLVED – That:**

- (i) the report be noted;
- (ii) the outcomes of the self-assessment process be noted;
- (iii) the action plan for improvements be agreed;
- (iv) a message be circulated to all relevant officers advising them that any matter for the Committee's consideration should be scheduled for the agenda and discussed in a formal setting;
- (v) Internal Audit together with a Legal Adviser and the Head of Democratic Services would identify the skills that the Committee needed and assess how they were met;
- (vi) Internal Audit together with a Legal Adviser and the Head of Democratic Services would assess the role of independent members;
- (vii) members attendance would be monitored and reported on a regular basis;



- (viii) the Deputy Clerk and Treasurer would raise the issue of attendance at the next meeting of the ITA;
- (ix) the Democratic Services Officer would collate the attendance statistics and circulate it to relevant officers;
- (x) the progress of the suggested improvements be reviewed annually.

**ACTIONS:**

Bullet point 1: I Pattison/P Slater as soon as possible.

Bullet point 2: I Pattison, H Wilson and I Poll by 31 March 2011.

Bullet point 3: I Poll as soon as possible, V Miller by 23 September 2010 and P Woods on 23 September 2010.

Bullet point 4: I Pattison

21. **STRATEGIC RISK UPDATE**

Submitted: Report by the Clerk (previously circulated and also attached to Official Minutes).

P Woods presented the report, which provided a six-monthly update on the strategic risks and opportunities in line with in the ITA Strategic Risk Strategy. He also presented the following amendments to the report, which were the result of the financial pressures from the central government and the uncertainties of the current financial environment in which local government operated (these amendments would also be reported to the ITA on 23 September 2010):

Risk (description)	New Status	
	Priority	Direction of Travel
Future spending restrictions, impacting on key ITA projects and ability to deliver policy objectives	Red 12	Deteriorating
Insufficient funding for Concessionary Fares resulting in restricted ITA ability to fund other transport services, reduction in some services and adverse publicity	Red 9	Deteriorating

In response to a member's question, P Woods and S Vincent explained that the ITA risk matrix consisted of 16 scale points. The Chair asked that the matrix be circulated to members.

**RESOLVED – That:**

- (i) the report and updates be noted;
- (ii) the ITA matrix be circulated to members.

**ACTIONS:**

Paragraph 2: P Woods on 23 September 2010.

Paragraph 3: P Woods/S Vincent by 17 December 2010.

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

Friday, 17 December 2010 at 2pm.



## Tyne and Wear Integrated Transport Authority

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ITA STANDARDS AND AUDIT COMMITTEE

17 DECEMBER 2010

**TITLE: RECENT PUBLICATIONS FROM STANDARDS FOR ENGLAND – CASE REVIEW**

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

**District Implications - all**

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**1. Purpose of Report**

1.1 The purpose of this report is to advise the Committee about a recent publication from Standards for England.

**2. Recommendation**

2.1 The Committee is recommended to note that Standards for England has issued a new edition of its Case Review.

**3. Background**

3.1 One of Standards for England's key functions is to provide guidance for authorities when implementing the Code of Conduct. It aims to help members, monitoring officers and standards committees "to successfully interpret the Code of Conduct". It therefore produces a range of guidance materials.

**4. Case Review**

4.1 Standards for England has produced a new (online) edition of its Case Review. This is its third "paragraph-by-paragraph analysis" of the Code of Conduct. It is intended to be a "research tool" for Monitoring Officers and Standards Committees, and has been developed to help them understand how tribunals and higher courts have interpreted the Code. There are questions and answers for each paragraph of the Code followed, where possible, by tribunal and court case examples. It supercedes *The Case Review 2007* and *The Case Review: 2008 Digest*. In addition, there is a new section dealing with important cases concerning procedural issues.

Standards for England intends to keep the Case Review "under constant review"

to reflect changes resulting from case law.

The new Case Review can be found at:

<http://www.standardsforengland.gov.uk/CaseinformationReporting/OnlineCaseReview2010/>

Printed versions will not be distributed by Standards for England. However, it does intend to put a downloadable document version on its website.

## **5 Background Papers**

5.1 Held by Legal Adviser and Monitoring Officer on file XPA00007

1. Standards for England – Case Review

## **6 Contact Officer**

6.1 Helen Wilson, Solicitor, ext 25110, [helen.p.wilson@newcastle.gov.uk](mailto:helen.p.wilson@newcastle.gov.uk)

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## Tyne and Wear Integrated Transport Authority

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ITA STANDARDS AND AUDIT COMMITTEE 17 DECEMBER 2010

TITLE: ABOLITION OF THE STANDARDS BOARD REGIME

REPORT OF THE LEGAL ADVISER AND MONITORING OFFICER

District Implications – all

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1. **Purpose of Report**

1.1 This report updates the Committee on the proposed abolition of the Standards Board regime.

2. **Recommendation**

2.1 The Committee is recommended to note this report.

3. **Background**

3.1 As the Committee is aware, the Government announced that its planned Decentralisation and Localism Bill would include proposals for “the abolition of the Standards Board regime”.

3.2 A DCLG press statement dated 20 September 2010 included the following:

*“The whole Standards Board regime consisting of a centrally prescribed code of conduct, standards committees with the power to suspend councillors and an unelected central body will be axed in the upcoming Localism Bill”.*

4. **Current Position**

4.1 DCLG has now published a helpful document on the abolition of the Standards Board regime.

A copy is attached.

4.2 In addition, Standards for England have written to Standards Committee Chairs.

A copy of that letter is also attached.

4.3 DCLG now anticipate that the Bill will be laid before Parliament this month.

Once the Bill has been published, officers will be able to assess the implications more clearly and then report back to the Committee.

## **5 Background Papers**

5.1 Held by Legal Adviser and Monitoring Officer on file XPA00007

1. DCLG – “The abolition of the Standards Board regime” – 1 December 2010.
2. Standards for England – letter to Standards Committee Chairs – 30 November 2010.

## **6 Contact Officer**

6.1 Helen Wilson, Solicitor, ext 25110, [helen.p.wilson@newcastle.gov.uk](mailto:helen.p.wilson@newcastle.gov.uk)

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## Abolition of the Standards Board regime

### The Standards Board regime

The Coalition Agreement *Our Programme for Government* included the commitment to “abolish the Standards Board regime”.

The Government considers that the Standards Board regime, consisting of a centrally prescribed model code of conduct, standards committees with the power to suspend a local authority member and regulated by a central quango was inconsistent with the principles of localism. In addition there is a concern that the regime is a vehicle for vexatious or politically motivated complaints.

The Government considers that it is the right and the responsibility of the electorate to determine who represents them and that the abolition of the regime will restore power to local people.

Accordingly, given the interdependencies of the bodies, requirements and guidance that constitute the Standards Board regime, the Government is proposing to abolish the regime in its entirety.

Subject to Parliament approving the necessary legislation, the changes are as follows:

- The Relevant Authorities (General Principles) Order 2001, which sets out the principles which govern the conduct of members and co-opted members of relevant authorities in England and police authorities in Wales, will be revoked.
- The Local Authorities (Model Code of Conduct) Order 2007 (S.I 2007/1159) which prescribes the model code of conduct to apply to members of relevant authorities, will be revoked.
- The requirement for local authorities to have standards committees will be abolished.
- Standards for England (formally known as the Standards Board for England) will be abolished. Established by the Local Government Act 2000 and the regulator for local authority standards committees, the Standards Board requires primary legislation to abolish it and its legislative functions. None of the Standards Boards functions will be transferred to other bodies.

- The First-tier Tribunal (Local Government Standards in England), the independent judicial tribunal established as a disciplinary body to hear and determine references and appeals concerning the conduct of local authority councillors, will lose its jurisdiction over the conduct of local authority members.

It is intended to effect the abolition of the Standards Board regime through the Localism Bill. It is anticipated that the Bill will be laid before Parliament in December and will receive Royal Assent late-2011.

The present conduct regime (a model code governing local authority members' conduct and enforced through local authority standards committees, regulated in turn by the Standards Board for England), will continue to function in a normal manner, considering, investigating and determining allegations of misconduct, until a fixed date ("the appointed day"), probably two months after the Bill receives Royal Assent,.

This means that until the appointed day, an allegation of misconduct can be made; after the appointed day, no further allegations of misconduct can be made under the standards board regime. It also means that at the appointed day, allegations will be in the process of investigation and, further, that appeals against sanctions will be pending. Transitional measures will be put in place to address this.

### **Proposed transitional measures**

Any cases in the system at the appointed day will make their way through a transitional regime. This would meet the expectation of those who had made allegations that their allegations would be properly dealt with. It also enables that if a member has an allegation made against them, they should have the opportunity to clear their name.

The Government propose that any investigations being undertaken by Standards for England transfer, on the appointed day, to the local authority that referred the investigation. It will be for that local authority to arrange for the conclusion of the investigation. The local authority's standards committee will remain established until the last complaint it is considering, referred either internally or from Standards for England, has been dealt with.

Any cases with which the First-tier Tribunal (Local Government Standards in England) is dealing on the appointed day will be concluded by that tribunal. It will not receive any appeals against standards committee rulings after that date.

The right of appeal will not exist for those cases standards committees deal with as they work their way through the transitional system. The Government considers that the risk of protracted proceedings justifies this approach. The sanctions available to standards committees are significantly less severe than the sanctions available to the First-tier Tribunal (Local Government Standards in England).

Further, the Government propose that the suspension sanction is removed from standards committees for the transitional period. Hence the most a standards



committee could do is, for instance, to issue a councillor with a censure or a request that they undergo training.

### **The conduct regime in a post-Standards Board world**

The Government is committed to maintaining high standards of conduct in office and will ensure that, in the absence of a statutory code of conduct, councillors do not abuse their office for personal gain by putting their personal interests before those of the general community or local area that they represent. Members will be required to continue to register and declare personal interests and will not be allowed to use their position improperly for personal gain. The Government intend that wilful failure to comply with these requirements will constitute a criminal offence.

The requirement for local authorities to adopt a model code of conduct and for local authority members to abide by that code will be abolished. However, local authorities will be free to adopt their own, voluntary code of conduct should they so wish.

The requirement to maintain a standards committee will be abolished. However, local authorities will be free, should they choose, to establish voluntary standards committees to consider complaints about the conduct of elected and co-opted members. Such committees will, according to councils' local constitutions, be able to censure but will not be able to suspend or disqualify members from council membership.

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To: Standards Committee Chairs

30 November 2010

Dear colleagues

I would like to draw your attention to a letter sent to me from the Local Government Minister, Bob Neill MP about the Government proposals for the future of standards in local government. This letter has now been published on both our and CLG's website.

As you will know, since the Coalition Government announced its intention 'to abolish the Standards Board regime', there has been little detail available about what this would mean in practice. The letter from the Minister now sets out the proposition in greater detail.

In brief, you will see that the proposal is that, alongside the abolition of Standards for England, the First Tier Tribunal (Local Government Standards in England) would lose jurisdiction over member conduct. The Government also intends to remove the national Code of Conduct for councillors and the requirement to have a standards committee. Instead it would be for councils themselves to choose whether or not they wish to have a local code or a standards committee (which would be an 'ordinary committee' of the authority and therefore not need to have independent representation). Any standards committee would no longer have the power to suspend a member. There would also be a new criminal offence created relating to failure to register or declare interests.

In the meantime, you will see that these proposals will need primary legislation. Our understanding is that the Decentralisation and Localism Bill, which would contain such provisions, will be introduced to Parliament by the end of the year. The current framework will continue in place until such time as the bill receives Royal Assent and the relevant provisions are enacted. Our understanding is that

this is likely to be some time in the summer or autumn next year, although exact timing will obviously depend upon Parliamentary progress of the bill as a whole. Consequently, in the meantime, as the Minister recognises, standards committees will continue to have a legal requirement to operate as now and, in particular, to continue to consider any allegations.

You will see that the Minister's letter sets out, in some detail, the transition arrangements that they intend to apply to any cases which will be in the pipeline at the end of the framework. While these proposals obviously depend on Parliamentary approval, in brief, Standards for England would cease to handle cases from an Appointed Day (likely to be two months after the coming into force of the provisions). At that stage, all cases still open would be passed back to the relevant local authority to complete. Any cases with the Tribunal at that stage would be completed but no further references could be made to it. Any cases being handled locally would need to be completed locally after that date by the standards committee, with no power to pass them to Standards for England or the Tribunal, but no new allegations could be made after the Appointed Day.

I hope that you find this helpful.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'R Chilton', with a stylized flourish at the end.

Robert Chilton  
Chair



## Tyne and Wear Integrated Transport Authority

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**DATE:** 17 December 2010

**TITLE:** 2011/12 Budget Update

**STANDARDS AND AUDIT COMMITTEE**

**REPORT OF:** THE DEPUTY CLERK AND TREASURER (ITA)

**Reasons for confidentiality (if confidential)**

**District Implications All**

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### 1. Summary / Purpose of Report

- 1.1 The purpose of this report is to update Standards and Audit Committee members on the approach to and progress with the 2011/12 budget setting process for the ITA and Nexus.

### 2. Recommendations

- 2.1 The Committee is asked to receive this report for information and comment.

### 3. Background

- 3.1 In 2010/11 the budget for the ITA was set at an increase of the levy of 1.5% with a commitment in the medium term plan to retain the levy at that level in cash terms for a further two years. However, the financial context in which Local Authorities are now operating has moved on significantly in recent months and the guidance for preparation of the 2011/12 budgets needs to be considered in this context.
- 3.2 The ITA will be asked to approve the levy and the Nexus budget for 2011/12 together with an indication of the budget for the 2012/13 and 2013/14 financial years, as part of its medium term financial strategy at its meeting scheduled for 27 January 2011.
- 3.3 In view of the budget guidance issued in October and the cuts in council funding announced in the 2010 Spending Review, the 2011/12 budget is being prepared on

the basis of absorbing cost pressures and achieving a levy reduction of up to 10%.

- 3.4 The preferred option of the ITA Treasurer and Nexus' Director of Finance and Resources is for a maximum 5% reduction in the base levy in 2011/12, a further 5% reduction in 2012/13, and the addition to the levy of all concessionary fares grant which will be paid to districts from 2011/12 (currently this is paid directly to the ITA/Nexus). This strategy will allow for the protection of front line services and development of a Quality Contract Scheme proposal which is intended to deliver sustainable savings from 2013/14 onwards.

This strategy and approach has been discussed with ITA members at a policy seminar on 28 October and an informal budget session held following the meeting of the committee on 25 November.

#### 4. Summary of 2010/11 Base ITA Levy and ITA/Nexus Budgets

- 4.1 The ITA levy for 2010/11 was £71.706m, of which £68.055m (94.9%) was paid to Nexus to provide transport services. The remaining £3.651m was retained by the ITA to fund historic capital financing and pension costs and the running of the ITA. The allocation of the levy between the ITA itself and Nexus is shown in Chart 1.

The ITA's own Budget of £3.932m is funded by the contribution from the levy as well as a £0.281m use of reserves. The allocation of the levy and the breakdown of the ITA's own Budget is summarised in Chart 2. This shows that 85.2% of the ITA's budget is historic capital financing and pension costs, which are not particularly controllable, whereas the controllable running costs amount to only £0.583m – 14.8% of the ITA's own budget and less than 1% of the levy.

Chart 1: Allocation of levy

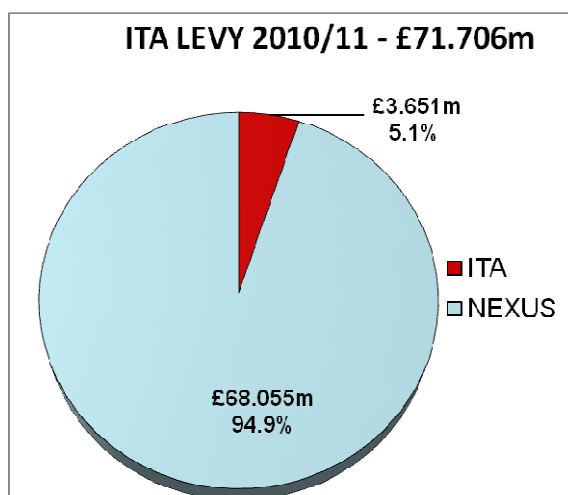
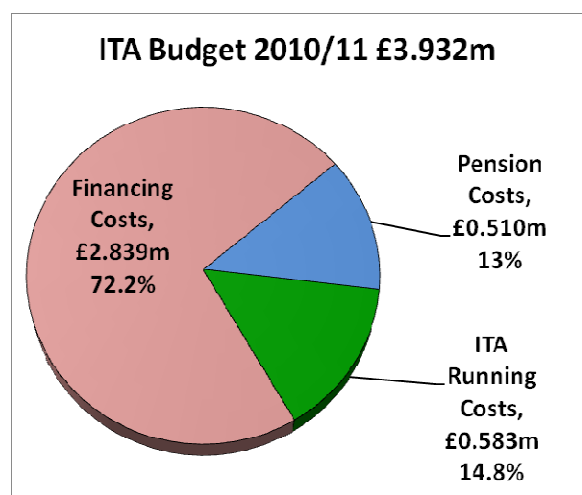


Chart 2: Breakdown of ITA budget



**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.**

The Grant provided to Nexus by the ITA in 2010/11 amounts to £68.555m, made up of the levy contribution of £68.055m and a £0.5m contribution from ITA reserves.

## 5. 2011/12 Budget Options

- 5.1 The majority of the costs within the ITA and Nexus budgets are relatively fixed. When the ITA and Nexus budgets are combined, the statutory and relatively fixed elements amount to around £51.93m - 72% of the levy. If a 10% saving of the total levy (£7.171m) had to be achieved, this is equivalent to a cut of 36% in the controllable element for the levy.

### ITA Budget

- 5.2 In response to the Joint Authorities Budget Guidance that has been issued, all aspects of the ITA Budget are subject to review.
- 5.3 The latest projections for 2010/11 outturn suggest that ITA expenditure will be lower than budget during 2010/11 by around £0.1m. This is from savings on financing charges due to low interest rates.
- 5.4 The ITA is undertaking a thorough review of its costs over the four main spend areas in order to identify possible savings in 2011/12:
- ITA support costs - Newcastle City Council provides support to the ITA through Service Level Agreements (SLAs). In the short term all of the current SLAs are being reviewed in order to achieve efficiency savings and provide even better value for money. In the longer term, the future operating model for the way support is provided to both the ITA and Nexus needs to be determined. The model of provision will be reviewed by considering examples from other regions and best practice models, and this may enable some savings to be made in future years.
  - ITA members and governance - All areas of spend on items such as printing, publishing notices, the number of meetings of the ITA and its various working groups and LGA subscription payments are under consideration.
  - Pension costs - The ITA currently makes payments to reduce the pension deficit in respect of pensions for former Busways' employees, with no current employees. Given the level of deficit payments that have been made in recent years, it is anticipated that some reduction in pension costs can be accommodated following the actuarial valuation result. The results of the valuation should be released in December.

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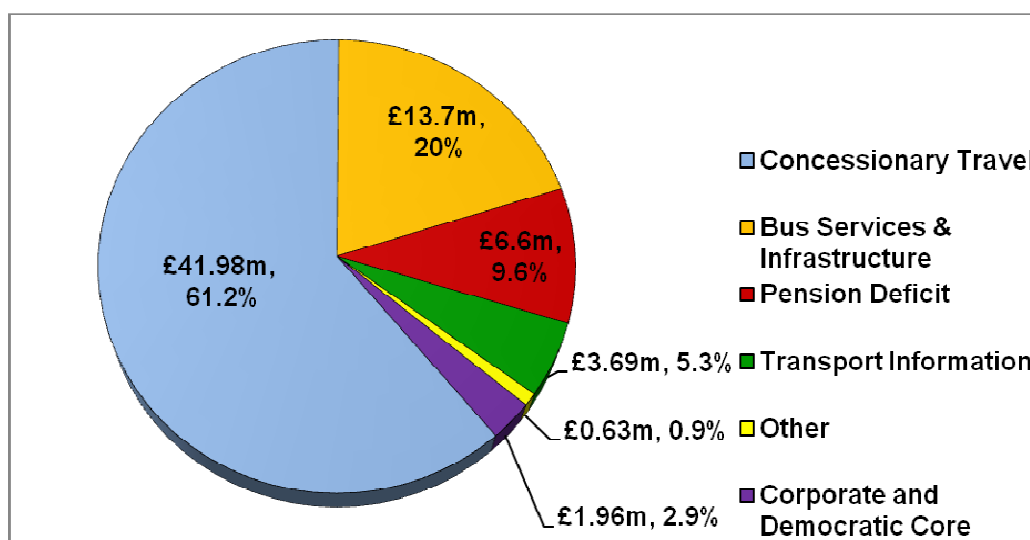
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- Financing costs - Financing costs make up a significant proportion of the ITA revenue budget. Some savings on financing charges have been achieved in 2010/11 and 2011/12, which are reflected in savings of £0.208m in the revised budget for 2011/12 of £2.631m. There is a further option for a substantial presentational reduction in the ITA levy if districts agree to a transfer of equivalent debt, which could produce a real net revenue saving for districts in 2011/12 and future years. This option is being explored further with Tyne and Wear Treasurers.

### Nexus Budget

- 5.5 Nexus' gross expenditure requirement for 2010/11 is £159.95m. External income (mainly commercial fares in relation to Metro and Secured bus services) equates to £55.76m, which together with grant income (mainly in relation to Metro and Concessionary Travel) mean that the demand on the ITA (the levy) equates to £68.56m in 2010/11. The following Chart 3 shows the relative share of costs. Over 70% of costs are made up of Concessionary Travel (which is a statutory obligation placed on Nexus) and Pensions, and are therefore not particularly controllable.

**Chart 3: Nexus Net Budget 2010/11 Funded from ITA Levy & Grant £68.56m**



- 5.6 Nexus also has a number of committed cost pressures and increases that need to be accommodated within its budget for 2011/12, including the potential impact of the 2010 pensions valuation, contractual staff increments, general price inflation on contracts, an increase in the rateable value of the Metro network and increased costs associated with the introduction of new ticket machines and barriers at stations across the Metro network. Nexus is also facing a reduction in its resource base in 2011/12 in relation to Metro Rail Grant payable by DfT, the withdrawal of

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ITA support of £0.5m that was provided in 2009/10 and 2010/11, as well as the need to re-base its forecast of investment income in response to the continued and unprecedented low level of interest being earned on its cash deposits.

- 5.7 Recognising these pressures and the pressure on the levy, Nexus has embarked on a series of efficiencies aimed at cutting its staffing establishment by 10% as well as significantly reducing its overheads.
- 5.8 The option preferred by Nexus is to work towards the implementation of a Quality Contract Scheme. Under the recommended approach, Nexus balances would be used to maintain service provision in the short term, pending the implementation of a Quality Contract Scheme intended to generate sustainable savings in 2013/14 and beyond. In order for this to be feasible, a maximum reduction in the base levy of 5% in 2011/12 and a further 5% in 2012/13 is recommended.

## 6. Next steps / timetable

- 6.1 The table below sets out forthcoming key dates in the budget setting process:

Date	Meeting
17-Dec-10	Tyne & Wear Leadership Group
20-Jan-11	Informal Budget Briefing for ITA members
27-Jan-11	ITA meeting to agree levy for 2011/12
15-Feb-11 (Statutory requirement to announce levy for 2011/12)	

## 7. Further comments by the:

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

## 8. Contact Officer (s)

- 8.1 Eleanor Goodman ext. 27518

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## Tyne and Wear Integrated Transport Authority

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**DATE:** 17 December 2010

**TITLE:** Revenue Budget Monitoring and Treasury Management Update

**STANDARDS AND AUDIT COMMITTEE**

**REPORT OF:** THE DEPUTY CLERK AND TREASURER (ITA)

**Reasons for confidentiality (if confidential)**

**District Implications All**

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### **1. Summary / Purpose of Report**

1.1 This report is to provide an update on financial reports presented to the ITA at its meeting of 25 November 2010, which are attached.

1.2 The following reports were presented by the Deputy Clerk and Treasurer of the ITA:

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

### **2. Recommendations**

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

### **3. Further comments by the:**

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

### **4. Contact Officer (s)**

4.1 Eleanor Goodman ext. 27518

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# Tyne and Wear Integrated Transport Authority

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**25 November 2010**

**TITLE: REVENUE BUDGET MONITORING REPORT (April 2010 - October 2010)**

**REPORT OF: Deputy Clerk and Treasurer to the ITA**

**Not confidential**

**District Implications - all**

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## **1. Summary / Purpose of Report**

- 1.1 The purpose of this report is to provide members with a revenue budget monitor report for the period April 2010 to October 2010
- 1.2 The monitor includes current financial information relating to ITA administration and financing and the Tyne Tunnels.
- 1.3 The report sets out expenditure to date and compares this with the original estimate presented to the Integrated Transport Authority at its meeting of the 28 January 2010. It shows that the likely outturn position is anticipated to be within budget.
- 1.4 The report also provides an update on the level of the ITA's borrowing and lending for information.

## **2. Recommendations**

- 2.1 The ITA is recommended to note the financial position as at 31 October 2010 set out in this report and attached appendices 1 and 2.

## **3. Introduction / Background**

3.1 The budget monitor has been prepared by comparing the actual income and expenditure (analysed into ITA and Tyne Tunnels) from April 2010 to October 2010 with the budget for 2010/11. Appendices 1 and 2 summarise the recorded spending position as at 31 October 2010.

3.2 For the ITA, expenditure at £42.25m is 58% of the annual budget for the year, with no unexpected costs incurred to date. There is some variation in the percentage spend on individual budget items, but this is broadly in line with expectation apart from the following -

- Support Services – The majority of the costs of officer support activity of the ITA are charged into the revenue account in the second half of the year. Overall costs are expected to be in line with the budget.

It is anticipated that the likely outturn position will be within budget, based on the expenditure to date and the known commitments at this time

3.3 2010/11 is the second full year of the contract with TT2 for the operation of the Tyne Tunnels. Payment to TT2 is linked to the tolls income. For the first seven months of 2010/11 the position is summarised in Appendix 2, with key bullet points shown below -

- Toll income is collected by TT2 and paid to the ITA within 4 working days of being actually received. The monthly payment to TT2 is paid within 30 working days after the end of the relevant month.
- Net tolls income (tolls income received less payment to TT2) is within 5% of the budgeted net income for the first seven months of 2010/11.
- Actual traffic is broadly similar to the first seven months of last year after taking account of tunnel closures in 2009 and timings of holiday periods.

## **Treasury Management Update – Borrowing and Lending**

### Borrowing

3.4 The ITA's approved Authorised borrowing limit for the 2010/11 year is £231 million and its Operational borrowing limit is £226 million. The level of external borrowing as at 31 October 2010 is £165.6 million which includes new borrowing of £20 million this year to meet capital payment requirements in 2010/11. This is within the limits agreed by ITA and has been throughout the year to date. This includes the money that the ITA needs to borrow to fund its share of the new

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Tyne tunnel contract. The average interest rate payable on the ITA's loans this year is estimated at 4.30%.

### Lending

3.5 The ITA has been lending in line with the limits agreed for individual institutions agreed by the ITA. Our lending at 31 October 2010 was £20m. This was lent to 2 UK Banks and Building societies (with deposits ranging from £2m to £12m). The ITA had not lent money to any Icelandic Banks and had not lent money to other foreign institutions. Normal loan periods range from overnight to 364 days. The average interest rate on investments is estimated at 1.14% so far this year.

### 4. **Next Steps**

4.1 The budget and the ITA's treasury management position will continue to be monitored carefully by the Treasurer

### 5. **Further comments by the:**

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

### 6 **Background Papers**

6.1 Revenue Monitoring reports to October 2010

### 7 **Contact Officer (s)**

7.1 Eleanor Goodman 0191 277 7518

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## Appendix 1: ITA Revenue Budget Monitor for the Period April to October

Spend to 31 October 2010 (2010/11)

<u>ITA</u>	<u>Spend to 31.10.10</u>	<u>Budget</u>	<u>Spend against Budget</u>	<u>Traffic Light</u>	<u>Notes</u>
	£'000	£'000	%		
<u>Revenue Expenditure</u>					
Travel Costs	1	4	30%	G	
Supplies & Services	79	106	75%	A	
Support Services	3	403	1%	G	Primarily year-end expenditure
ITA Website Charges	20	34	58%	G	
Pension Costs	298	510	58%	G	
Grant to Nexus	39,990	68,555	58%	G	Annual subscription payment
GA Subscription	36	36	100%	G	Expenditure flow uneven throughout the year
Financing Charges	1,826	2,874	64%	G	
	<u>42,253</u>	<u>72,522</u>	58%	G	Overall revenue expenditure is in line with budget
<u>Income</u>					
Levy Income	(41,828)	(71,706)	58%	G	
Interest on Balances	0	(35)	0%	G	Income will be allocated to ITA at year-end
Contribution from Reserves	425	(71,741)	58%		
		781			

For further information or detail, please contact Eleanor Goodman on 0191 277 7518

## Appendix 2: Tunnels Revenue Budget Monitor for the Period April to October

Spend to 31st October 2010 (2010/11)						
	<u>Spend to</u> <u>31.10.10</u> £'000	<u>Original Budget for</u> <u>Year</u> £'000	<u>Spend as a %</u> <u>of Original</u> <u>Budget</u> %	<u>Traffic Light</u>	<u>Notes</u>	
<b>Tyne Tunnels</b>						
<b>TT2 Contract</b>						
Toll Income	(7,920)	(13,150)		G		
Payments to TT2	1,475	2,962				
Total	<u>(6,445)</u>	<u>(10,188)</u>	63%	A	At the date of preparation of this report, the October payment to TT2 was outstanding See paragraph 3.3	
<b>Other</b>						
Employee Costs	19	33	56%	G	Expenditure on target	
Other Expenses	26	43	60%	G	Expenditure is slightly higher than profiled, but this includes an insurance premium paid annually	
Community Fund	5	10	50%	G		
Pension Costs	341	588	58%	G	Year-end expenditure	
New Tyne Crossing support services	-	171	0%	G	Year-end expenditure	
Financing Charges	-	3,595	0%	G	Year-end expenditure	
Interest on Balances	-	(483)	0%	G	Year-end expenditure	
Total	<u>390</u>	<u>3,957</u>	10%			
<b>Net Surplus on Existing Tunnels</b>	<u>(6,054)</u>	<u>(6,231)</u>	97%	G		

For further information or detail, please contact Eleanor Goodman on 0191 277 7518



## Tyne and Wear Integrated Transport Authority

### Treasury Management and Investment Strategies Update

Report by: **Deputy Clerk and Treasurer (ITA)**

District **All Districts**  
Implications:

For decision		
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#### 1. Purpose of the report

- 1.1 To meet the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA), Treasury Management in the Public Services: Code of Practice and Guidance Notes for Local Authorities, a mid year report on Treasury Management operations should be made to relevant members. This report sets out the current position with regard to the Integrated Transport Authority's borrowing and lending activities and outlines anticipated changes over the course of the rest of the financial year.

#### 2. Recommendations

- 2.1 The Authority is recommended to: -
1. receive this update report for information and comment;
  2. consider and review the revised Authorised Limit and Operational Boundary; and
  3. consider and review changes to the Authority's Counter-Party List.

#### 3. The CIPFA Treasury Management Code

- 3.1 To meet the requirements of the above code the Authority must show evidence that the following actions are taken: -

##### 1. Scrutiny

There is a formal process to scrutinise the Treasury Management Strategy and policies and report on this to the Executive.

##### 2. Approval Process

The annual strategy will be approved by the Authority.

##### 3. Training of Authority Members

Relevant members of the Authority will receive appropriate training to enable

them to function in the role.

#### 4. Reporting

A mid year report will be made as well as an annual report.

#### 4. **Update Report**

4.1 The current Treasury Management prudential indicators were set out in the Annual Treasury Management Strategy Report 2010/11. That report was considered and approved by the ITA on the 28th March 2010. A revised set of indicators is given in this report including a table of investment limits with financial institutions.

#### 4.2 **Prudential Indicators**

##### **Borrowing Requirement**

4.2.1 The borrowing requirement comprises the expected movement in the Capital Financing Requirement and any maturing debt which will need to be re-financed. The table below shows the estimated effect on the borrowing requirement of the Authority over the next three years updated for changes that have occurred since the Annual Treasury Management Strategy Report 2010/11 was reported in March of this year.

	2010/11 £,000	2011/12 £,000	2012/13 £,000
Debt at 1 April 2010	145,560	177,620	218,704
Expected change in debt	32,060	41,084	(10,454)
Debt at 31 March 2011	177,620	218,704	208,250

4.2.2 During the first half of 2010/11 advantage has been taken of low levels of interest rates to borrow the following amounts for periods of 1 year.

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£10m	Fixed interest rate	0.70%	1 year
PWLB	£10m	Fixed interest rate	0.62%	1 year

4.2.3 The Government's Comprehensive Spending Review Report included an announcement that PWLB interest rates would increase immediately by an average of 1% above the Government's cost of borrowing. The current interest rate on 1 year loans is, at 5 November 2010, 1.55%. This compares to 0.62% that was obtained on borrowing carried out earlier in the year as shown in paragraph 4.2.2 above. The PWLB is showing a continuing upward movement in its rates.

4.2.4 The above announcement has made borrowing through Government more expensive than the market, but the expectation is that market interest rates will rise to come broadly in line with Government rates.

4.2.5 Paragraph 4.2.1 shows that expected levels of debt for the ITA will be £177.6m whilst current borrowing is £165.6m. An additional £12m of borrowing is required in the remaining months of 2010-2011.

Whilst there is little that can be done about the increases in interest rates brought in as part of the Comprehensive Spending Review, Treasury Officers must look at meeting the Authority's future borrowing needs that minimise the impact on the budgetary position of the Authority. There are several options that can be utilised to do this as follows: -

1. Given the increase in the above rates it is thought prudent to look at meeting additional borrowing requirements through short-term temporary borrowing which at present is as low as 0.30%.
2. Look at using PWLB annuity and equal instalments of principle (EIP) instead of the more common maturity type of loan. The above loan types usually provide a lower rate of interest as Government encourage borrowers to repay principal during the course of the loan rather than at the end. Typically, for example, a loan taken on the 5<sup>th</sup> November 2010 for a period of 9 and a half to 10 years would pay interest of 2.87% on EIP; 2.92% annuity and 4.10% maturity loans; and
3. Using flexibility to borrow funds in advance. Given the changes identified in paragraph 4.2.3 above the Treasurer and Deputy Clerk may look to do this under delegated power so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Treasurer and Deputy Clerk will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt requirements. Borrowing in advance will be made within the constraints that
  - It will be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three year planning period; and
  - Would not be more than 12 months in advance of need.

### 4.3 **The Authorised Limit for External Debt**

4.3.1 A key prudential indicator provides a control on the overall level of borrowing with the Authority setting and revising a limit beyond which external debt is prohibited. This reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all authorities' plans, or those of a specific authority, although no control has yet been exercised. The limits are detailed below.

Authorised limit £000	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Borrowing	231,000	243,000	238,000
Other long term liabilities	213,000	223,000	235,000
<b>Authorised Limit</b>	444,000	466,000	473,000

#### 4.4 Investment Activity April to October 2010.

4.4.1 Key Objectives - The Authority's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background above, the over-riding risk consideration of the current investment climate is ensuring that return is maximised without reducing the level of counterparty security risk and maintaining liquidity to meet the Authority's obligations. However, should the Treasurer and Deputy Clerk utilise borrowing in advance to take advantage of lower interest rates then there may be short term surpluses that can be invested. To obtain the best return on such surpluses it is proposed to amend the counter party list by increasing the Co-operative Bank investment limit.

4.4.2 Risk Benchmarking – A development in the revised Codes and the Communities and Local Government Committee consultation paper is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to Member reporting, although the application of these is more subjective in nature.

These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

Security - The Authority's security risk is monitored continuously. Three ratings agencies provide detail relating to the financial strength of the institutions in which the Authority invests surpluses. This information is provided with regular updates by the Authority's treasury advisors, Sector. Outstanding investments are 100% with institutions classified as being of Very High Credit Quality

Liquidity – In respect of this area the Authority seeks to maintain:

- Liquid short term deposits of at least £1 million available with a week's notice.

Weighted Average Life benchmark is expected to be 0.30 years, with a maximum of 3 years, currently outstanding investments have an average period to maturity of 0.25 years.

Yield - Local measures of yield benchmarks are:

Investments – The returns of interest on investments are measured against money market indices. These indices are subject to fluctuations and so are

monitored daily. This allows comparison of actual and forecast returns to market averages.

The index against which our investment portfolio return, currently 1.02%, is measured is the LIBOR 7 day notice rate, currently 0.55%.

- 4.4.3 In view of the relatively low rates of interest that can be earned on investments the Treasurer & Deputy Clerk is following a strategy to reduce the level of external investments. This is being achieved by not replacing existing debt as it matures and by delaying decisions to take out new borrowing to fund capital expenditure. Capital expenditure and cash flow may thus be funded on a short term basis by use of internal funds and temporary borrowing. At this time it is estimated that the net effect of this approach will reduce external investments from the current level of £20 million to nil million by the end of November 2010.

## 5 **Corporate Implications**

### 5.1 **Financial**

The financial implications for the programme are set out in the earlier sections of this report.

### 5.2 **Legal**

There are no legal or human rights implications

### 5.3 **Environmental and Sustainability**

There are no environmental and sustainability implications

### 5.4 **Risk**

Debt and investment management involves the risk of interest rate volatility and security of cash investments. The revised Treasury Management in the Public Services: Code of Practice and Guidance Notes for Local Authorities recognises the priority to manage and control risk effectively. Treasury Management staff will manage these risks in accordance with it.

### 5.5 **Equalities**

There are no specific issues arising directly from this report.

### 5.6 **Scrutiny**

The Authority is responsible for scrutiny.

### 5.7 **Partnership**

The report has no direct partnership implications.

### 5.8 **Community Safety Implications**

The report has no community safety implications.

## 6 **What happens next.**

- 6.1 An ongoing process of member training is available if required.

## 7. **Background papers**

Held by Capital Investments Projects Team, Chief Executive's

## 8. **Contact officers**

Ian Richardson, Senior Loans & Investments Officer, Capital Investments Projects Team, ext 26524. Email [i.richardson@newcastle.gov.uk](mailto:i.richardson@newcastle.gov.uk)

Iain Duncan, Senior Accountant, Capital Investments Projects Team, ext 26684. Email [iain.duncan@newcastle.gov.uk](mailto:iain.duncan@newcastle.gov.uk)



## Appendix 1 – Tyne and Wear ITA Approved Institutions For External Investments

### Limits of Investments per Institution.

<u>Institution</u>	<u>Investment Limit</u>	<u>Support Rating</u>	<u>Maximum Period</u>	<u>Individual Rating</u>	<u>Short-term Rating</u>	<u>Long-term Rating</u>
Co-operative Bank	£30m	3	365 days	B/C	F2	A-
United Kingdom Debt Management Office (Maximum Period)	£50m	See note	6 months - DMO limit	Note: This is a United Kingdom government facility and an executive agency of the Treasury. Deposits placed with it are guaranteed by the government and have the equivalent of a sovereign triple-A credit rating.		
Barclays Bank	£30m	1	364 days	B	F1+	AA-
HSBC Bank	£30m	1	364 days	B	F1+	AA
Lloyds Banking Group (LBG) – Any combination of Lloyds TSB and Bank of Scotland not to exceed group limit	£50m group total includes Lloyds TSB and Bank of Scotland	1		C	F1+	AA-
LBG (a) - Lloyds TSB Bank	See above	1	364 days	C	F1+	AA-
LBG (b) - Bank of Scotland	See above	1	364 days	C	F1+	AA-
Nationwide Building Society	£30m	1	364 days	B	F1+	AA-
Northern Rock	£30m	2	3 months	C	F2	BBB+
Royal Bank of Scotland	£50m	1	364 days	D/E	F1+	AA-
Coventry Building Society	£20m	5	6 months	B	F1	A
Leeds Building Society	£20m	5	6 months	B/C	F1	A
Newcastle Building Society	£10m	5	3 months	C/D	F3	BBB-
U.K. Local Authorities	£10m per authority	-	3 months			

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## Tyne and Wear Integrated Transport Authority

### Standards and Audit Committee

**Date:** 17 December 2010  
**Title:** Internal Audit Progress Report  
**Report of:** Head of Audit and Strategic Risk

**Reasons for confidentiality – N/A**  
**District Implications - All**

#### 1. Summary / Purpose of Report

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

- A statement on progress against the Annual Internal Audit Plan 2010/11;
- The position on the implementation of audit recommendations.

#### 2. Recommendations

2.1 Standards and Audit Committee is recommended to note:

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

#### 3. Introduction / Background

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

Details	Assessment	Comments
Progress against the Annual Audit Plan 2010/11 (see 4.1 & 4.2)	Good	2 final reports issued. Remaining work scheduled for completion by end of February 2011.
Implementation of recommendations (see 4.3)	Satisfactory	1 outstanding recommendation from 2008/09. 1 outstanding recommendation from 2009/10 with 1 further recommendation not yet due for

		implementation.
Internal Audit Performance Indicators (see 5)	Satisfactory	With one exception all performance indicators are currently being met.

#### 4. Information

##### 4.1 Completed audits

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

Audit	Assessment
Performance Management	Satisfactory

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

##### 4.2 Progress against the 2010/11 Audit Plan

Audit	Status
Corporate governance	Audit complete
Performance Management	Audit complete
Tolls Income	Completion December 2010
Payments to the Concessionaire	Completion December 2010
Capital Payments	Planned for March 2011
Treasury Management	Planned for January 2011

##### 4.3 Recommendations Follow Up

- 4.3.1 Management is responsible for implementing all audit recommendations. Internal Audit follows up all high and medium priority recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. As low priority recommendations are not vital to the Authority's system of internal control these are not followed up by Internal Audit.
- 4.3.2 1 recommendation raised in 2008/09 remains outstanding. This relates to agreeing an updated partnership agreement covering the provision of fund management services by TWITA on behalf of Nexus. The draft agreement is with Nexus and their legal department are considering the agreement.
- 4.3.3 1 recommendation raised in 2009/10 remains outstanding. This relates to agreeing a protocol for production of the annual governance statement and was due for implementation by 30 September 2010. The responsible officer is currently finalising a draft protocol which is to be discussed by ITA Officers in January 2011.
- 4.3.2 4 recommendations have been raised in 2010/11. In respect of the Corporate

Governance audit 2 recommendations were raised with one being implemented and the second being addressed through the Fraud Risk Governance awareness session provided to members at this meeting. The remaining 2 recommendations relating to Performance Management are not due for implementation until 31 March 2011 and officers are currently reviewing arrangements which will feed into this process.

## 5 Internal Audit Performance Indicators

IA has a number of internal performance indicators agreed with the Committee, the table below shows the indicators used and our performance in 2010/11 to date, i.e. 03 September 2010. The figures shown in brackets represent the number of audits to which the performance indicator relates.

Description	Target	Actual
Number of audits completed, i.e. delivery of annual audit plan.	100% (6)	33.3% (2)
Number of audit days provided in line with SLA activity, i.e. both direct and indirect audit work. (See Note 1 below)	30	27.50
Average variance of time taken per assignment over the agreed budget. (Completed audits only)	<10%	4% 12.5 days against a combined budget of 12 days.
Average number of calendar days between end of fieldwork and issue of draft report.	14	13 (2)
Average number of calendar days between draft report issue and management response being received.	For information only	11 (2)
Average number of calendar days between response from management and issue of final report.	7	4 (2)
Number of satisfaction surveys returned.	6	0
Average satisfaction survey score (maximum score 5).	4	N/A

### Note 1

Internal Audit has utilised 27.50 days of audit resource against its budget of 30 days (when excluding non-direct audit work this equates to 13 days of audit resource utilised against its budget of 28 days).

In respect of direct audit work the level of resource utilised is in line with the agreed budgets.

Indirect work has necessitated additional resource utilisation and includes a range of activities undertaken in respect of TWITA operations and the Standard

and Audit Committee's. These include preparation of reports and attendance at Standards and Audit Committee, involvement in the ITA Service Transformation and Efficiency Programme review, undertaking the self assessment of the effectiveness and skills assessment for Standards and Audit Committee and provision of advice and guidance to officers working on behalf of TWITA.

A total of 14.5 days have been utilised against a budget of 2 days. No charges above the SLA have been levied for this additional resource.

**6. Further comments by the:**

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

**7. Background Papers**

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

**8. Contact Officer (s)**

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

Summary of completed audits

Audit Work	Audit coverage	Assessment	Recommendations			Status
			High	Medium	Low	
Performance Management	To ensure TWITA has adequate and effective controls in place to minimise the risk of fraud and corruption.	Satisfactory	0	2	0	Audit complete
<b>Areas where adequate assurances were obtained</b>						
<ul style="list-style-type: none"> <li>✓ Specific, measurable and relevant performance measures have been selected from the national data set.</li> <li>✓ Performance information is scrutinised and validated within the Transportation Policy section prior to submission and publication.</li> <li>✓ Arrangements are in place to obtain performance information from partner organisations.</li> <li>✓ Nexus data is verified by the Business Intelligence Unit prior to publication.</li> </ul>						
<b>Areas for improvement (medium and high priority only)</b>						
<ul style="list-style-type: none"> <li>▪ Current performance indicators should be reviewed and expanded to include local indicators as well as national indicators (medium priority).</li> <li>▪ Reporting arrangements for the New Tyne Crossing project should be further developed to include a framework to which performance can be assessed (medium priority).</li> </ul>						

**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.

<p><b>High Priority:</b> 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.</p>
<p><b>Medium Priority::</b> 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.</p>
<p><b>Low Priority:</b> 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.</p>



**Definitions for Individual Findings and Recommendations Ratings**

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

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

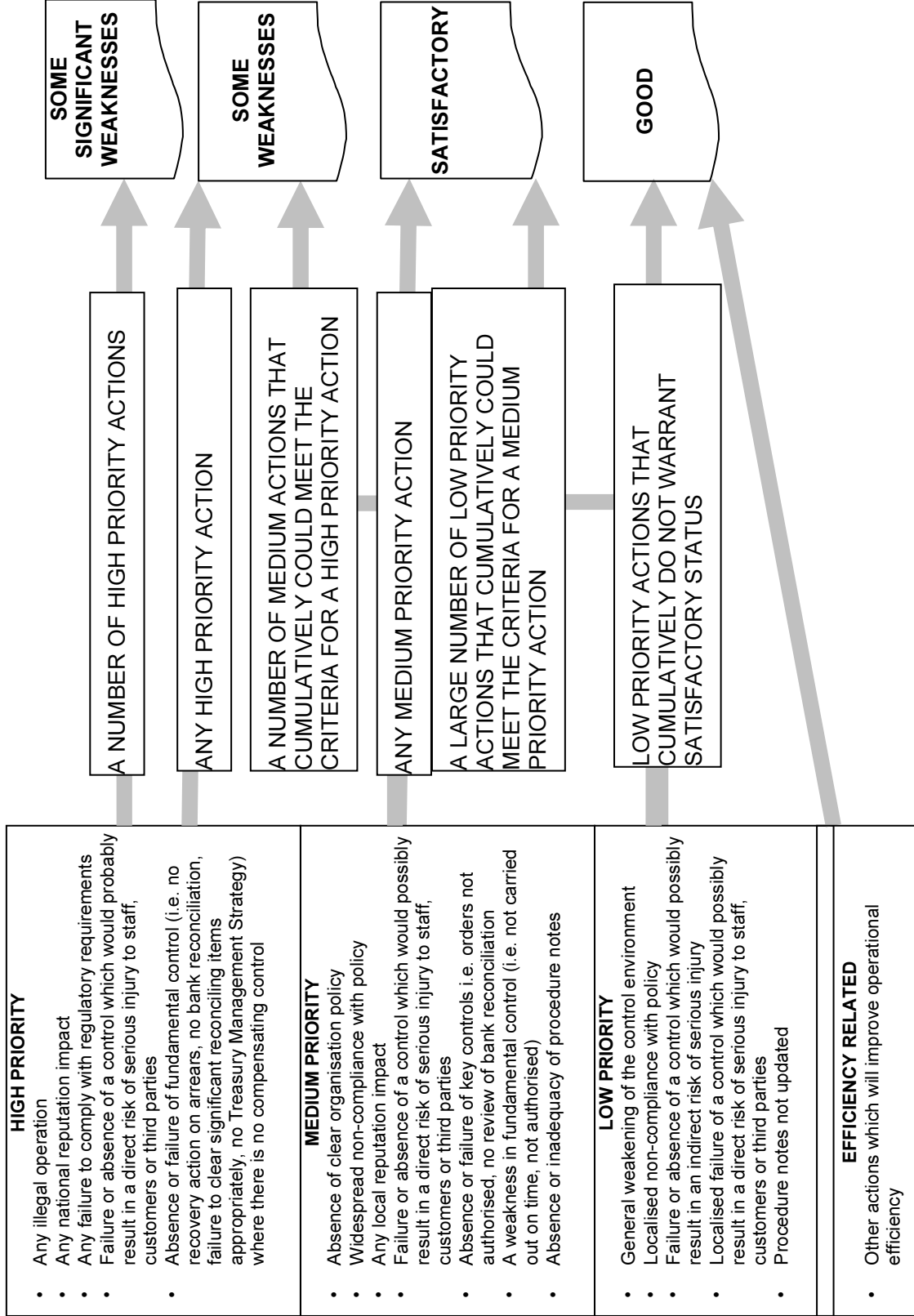
**Satisfactory** – There is a medium risk that the system will fail to meet its objectives. Slight improvements are required in these areas to increase the adequacy and effectiveness of risk management, control and governance.

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

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

**Definitions for Individual Findings and Recommendations Ratings**

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





## Tyne and Wear Integrated Transport Authority

### Standards and Audit Committee

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**Date:** 17 December 2010  
**Title:** Standards and Audit Committee – Members Skills’ Assessment  
**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 Standards and Audit Committee agreed an action plan at its meeting in September 2010 to address areas for improvement identified during its self assessment of effectiveness. As part of this action plan it was agreed that an assessment of members skills would be undertaken. This report sets out the process for undertaking this assessment of members skills.
- 1.2 CIPFA Audit Committees, Practical Guidance for Local Authorities states that it is important that members have a broad understanding of the financial, risk and control, and corporate governance issues facing local authorities generally and the council specifically. An ability to question, probe and seek clarification about complex issues is also essential.

#### 2. Recommendations

- 2.1 Standards and Audit Committee is recommended to:
- Review the skills assessment documentation and provide any comments on the process.
  - Agree timescales for completion of the review.

#### 3. Information

- 3.1 Standards and Audit Committee members have been provided with a self assessment questionnaire for completion. A copy is provided for information at Annex I to this report. Members are requested to return these questionnaires to Audit and Strategic Risk as soon as possible to facilitate the co-ordination of responses.
- 3.2 The following process is proposed following receipt of questionnaires:
- Audit and Strategic Risk to co-ordinate responses from members and provide a report back to Committee on the outcomes of the assessment;
  - Audit and Strategic Risk to prepare a draft training programme where

needs are identified and bring this back to Committee for approval.

**4. 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).

**5. Background Papers**

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

**6. Contact Officer (s)**

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

## Assessment of relevant skills and experience members bring to Standards and Audit Committee

CIPFA: Audit Committees: Practical Guidance for Local Authorities states that it is important that members have a broad understanding of the financial, risk and control, and corporate governance issues facing local authorities generally and the council specifically. An ability to question, probe and seek clarification about complex issues is also essential.

The purpose of this self assessment questionnaire is for members to assess their own personal professional skills and expertise, identify any training requirements and to feed into an overall analysis of the skills and experience of the Standards and Audit Committee.

Areas of Committee Responsibility / Skills Area	Expertise, experience, understanding and skills			Training required
	Good	Adequate	Needs improvement	
Internal Audit				
Internal Control Assurance				
External Audit				
Risk Management				
Accountancy / Accounts				
Financial Management				
Corporate Governance				
Performance Management				
TWITA Core Activities				
Standards Regime				

Please provide details of any relevant expertise, experience, understanding and skills you bring to the Committee as a member which is not covered above or any other areas where training would be necessary.

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