



North East Combined Authority, Governance Committee

Tuesday 3rd April, 2018 at 2.00 pm

Meeting to be held: Sunderland City Council, Civic Centre. Burdon Road. Sunderland. SR2 7DN

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AGENDA

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Please note that there will be a briefing session commencing at 1.30pm which will outline general background information on North of Tyne Devolution

1. **Apologies for absence**

2. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

3. **Minutes/Notes of Previous Meetings:**

- | | | |
|-----|--|----------------|
| (a) | 4 July 2017 | 1 - 4 |
| (b) | 12 September 2017 - Inquorate Meeting | 5 - 10 |
| (c) | 5 December 2017 - Inquorate Meeting | 11 - 16 |

4. **Appointments of Independents / Non Council Members** **17 - 22**

5. **Proposals for the June Constitutional Review** **23 - 30**

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11.	Strategic Risk and Opportunities Register	113 - 128
12.	Date and Time of Meetings 2018-19	

The next meeting is scheduled to be held on **Tuesday 30 July 2018 at 10.00am at North Tyneside Council**

Future meetings provisionally scheduled but to be confirmed by NECA Annual General Meeting in June 2018:

Tuesday 4 September 2018 at 10.00am
Tuesday 4 December 2018 at 10.00am
Tuesday 2 April 2018 at 10.00am

Contact Officer: Christine Patterson Tel: 0191 211 6156 E-mail: christine.patterson@northeastca.gov.uk

To: All Members



North East Combined Authority, Governance Committee

4 July 2017

(2.00 pm - 3.15 pm)

Meeting held Gateshead Council, Civic Centre, Regent Street, Gateshead NE8 1HH

Present:

Independent Members: M Scrimshaw (Chair), G Clark (Vice Chair)

Councillors: H Haran (Gateshead), B Kellet (Reserve - Durham), M Talbot (Newcastle), M Swinburn (Northumberland) and G Hobson (South Tyneside)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from E Bell (Durham), H Trueman (Sunderland) and S Gardner (Independent Person)

2 DECLARATIONS OF INTEREST

None

3 MINUTES OF PREVIOUS MEETING HELD ON 4 APRIL 2017

Clarification was sought on Minute 43 – Finance Update. P Woods explained that details of the governance of the Special Purpose Vehicle (SPV), would be attached to the Minutes of this meeting.

RESOLVED - That the Minutes of the previous meeting held on 4 April 2017 be agreed as a correct record, subject to the following amendment then the Minutes be signed by the Chair:

- G Clark (Vice Chair) be removed from the list of Councillors in attendance and be included in list of Independent Persons.

4 GOVERNANCE COMMITTEE SELF-ASSESSMENT FEEDBACK

Submitted: Report by Mazars (External Auditor) (previously circulated and a copy attached to official minutes), which set out the findings of the survey, which gathered thoughts on how well the Governance Committee was performing and what

improvements could be made. The Committee was advised that the overwhelming results were positive.

Reference was made to the possible need for additional members training in light of some of findings of the survey. The committee was advised that there was an induction session for new members scheduled in July and reminded about previous training/briefing sessions provided to this committee. It was suggested that any briefing notes and/or copies of presentations, originally provided to the committee could be re-circulated. In addition, a ½ hour training session should be organised by the relevant lead officers and included as the first item of each future meeting. Specific areas initially to be covered were highlighted as: the role and remit of the committee; internal audit; external audit and risks and opportunities etc.

RESOLVED – That the findings of the survey be received and noted.

5 **2016-17 OUTTURN AND KEY FINANCIAL STATEMENTS**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which summarised the North East Combined Authority's financial results for 2016-17, presented the draft accounting statements and provided an overview of significant financial matters which occurred during the year.

During discussions, clarification was provided on the pension fund in relation to the impact of employee redundancies and adjustments in employer contributions; the capital expenditure of the Pedestrian Tyne Tunnel; the expenditure allocated for upskilling and the usable and reusable reserves. As a result of comments raised, P Woods advised that the report being prepared for the NECA Leadership Board would be strengthening. He also confirmed that an explanatory note would be included in the final accounts on the Pedestrian Tyne Tunnel capital expenditure and on the usable and unusable reserves. He offered the committee a brief training session on NECA Financial Accounts at the meeting scheduled in September 2017.

RESOLVED – That the report be received and noted.

6 **EXTERNAL AUDIT PROGRESS UPDATE**

Submitted: Report by External Auditor (previously circulated and a copy attached to official minutes), which presented an update on their progress in delivering their responsibilities as external auditors and also information on key emerging national issues and development.

P Woods appraised the committee about the progress being made on the national procurement exercise for establishing future public sector audit appointments. He emphasised the importance of appointing a single external auditor to deal with both with the NECA and NEXUS financial accounts to achieve continuity, good value for money and ensure targets were met within the allocated timescales.

On providing some clarification about how the narrative was produced on the national publications and other updates and responding to queries raised, C Waddell, agreed to provide a briefing note at a future meeting on the potential

challenges and risks associated with the '*scheme for 100% retention of business rates by local authorities*' and the impact as a result of it not being reflected in Queen's Speech.

Congratulations was passed onto the Finance Team, particularly E Goodman for the efforts in ensuring there were no significant deficiencies found in the internal controls.

RESOLVED – That the report be received and noted.

7 **DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided details of the draft 2016-17 Annual Governance Statement for inclusion in the accounts.

Clarification was provided on the role of this committee in relation to any code of conduct issues that may arise.

In response to queries raised, P Woods agreed to circulate relevant papers, which provided updates on '*Transport for the North*', previously provided to TWSC and/or Leadership Board.

RESOLVED – That the Committee:

- (i) Agreed the draft 2016-17 Annual Governance Statement narrative after considering the evidence provided to supports its production.
- (ii) Acknowledged that the Statement would be subject to further review in September 2017, following the completion of the external audit of the accounts and before it was signed by the Head of Paid Service and Chair of the Combined Authority.

8 **INTERNAL AUDIT 2016/17 ANNUAL REPORT AND INTERNAL AUDIT PLAN 2017/18 TO 2018/19**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided members with a summary of the outcomes from the delivery of the 2016-17 internal audit plan; information on the implementation of audit recommendations; an opinion on the effectiveness of NECA's control environment during 2016-17 as required by the Public Sector Internal Audit Standard (PSIAS) 2013 and a draft internal audit plan for 2017-18 – 2018-19.

C Waddell agreed to circulate the National briefing note on the changes to data protection as a result of the General Data Protection Regulation which takes effect in May 2018 to the committee; the Chair asking for a hard copy to be circulated to him.

RESOLVED – That the Committee:

- (i) Noted the internal audit activity undertaken during 2016-17.
- (ii) Considered the annual opinion of the Audit, Risk and Insurance Service Manager on NECA's control environment in 2016-17.
- (iii) Approved the 2017-18 and 2018-19 Internal Audit Plan.

9 **STRATEGIC RISK REGISTER AND OPPORTUNITIES REGISTER**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided the committee with an update of the Strategic Risks and Opportunities for the NECA.

As a result of comments raised and ensuring clarification was provided, P Slater agreed to include a clearer statement on the risks associated with European Funding and to include web links to the NECA, LEP and NEXUS Risk Registers in future reports.

Reference was made to the progress being made to recruit additional support for E Goodman. P Woods provided an update on the progress, in addition to the progress being made on the succession planning for the NECA Strategic Officers.

RESOLVED – That the Committee:

- (i) Reviewed and challenged the outcomes of the strategic risk review.
- (ii) Acknowledged the strategic risk review by the Leadership Board and received an update; details of which was noted.

10 **DATE AND TIME OF NEXT MEETING**

Tuesday 12 September 2017, 2pm, Durham County Council



**Inquorate Meeting of
North East Combined Authority, Governance Committee**
12 September 2017

(2.05 - 3.35 pm)

Meeting held Durham County Council, County Hall, Durham DH1 5UL

Present:

Independent Member: M Scrimshaw (Chair)

Councillors: M Talbot (Newcastle), M Swinburn (Northumberland) and H Trueman (Sunderland)

11 CHAIRS ANNOUNCEMENTS

The Chair welcomed Peter Judge, the newly appointed NECA Monitoring Officer to his first meeting, explaining that he was replacing Viv Geary in this role.

The Chair thanked Viv for all her effort and hard work over the past few years, particularly the guidance and support she had given to him and the Vice Chair. Everything she had done was exemplary and she would be missed. On behalf of the committee, he extended best wishes. In responding, Viv thanked the Chair for his kind words, pointing out that she had enjoyed working for the Combined Authority but had only been able to do what she had because of the support of a lot of officers.

The Chair announced that the meeting was inquorate; however, stated that he intended to go through the business on the agenda. He referred to Accounts 2017 presentation slides, which had been provided, suggesting that as not all members were present at the meeting, the accounts briefing session would be deferred and held prior to the next meeting scheduled for December 2017.

12 APOLOGIES FOR ABSENCE

Apologies for absence were received from G Clark (Vice Chair), S Gardner (Independent Person) and Councillors E Bell (Durham), G Hobson (South Tyneside), H Haran (Gateshead).

13 DECLARATIONS OF INTEREST

None

14 **MINUTES OF PREVIOUS MEETING HELD ON 4 JULY 2017**

RECOMMENDATION – The Minutes of the previous meeting be received and be ratified at the next scheduled meeting 5 December 2017.

15 **INTERNAL AUDIT PROGRESS REPORT 2017/18**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and attached to official minutes), which provided Members with an update on progress against the delivery of the 2017/18 internal audit plan and information on the implementation of audit recommendations.

P Slater introduced the report. In responding to a query raised by the Chair, he confirmed that he did have sufficient capacity within his team and time to complete the audits and report their outcomes to the next meeting scheduled in December 2017.

RECOMMENDED - That the report be noted.

16 **ANNUAL GOVERNANCE STATEMENT**

Submitted: Report by Audit, Risk and Insurance Manager (previously circulated and a copy attached to official minutes), which provided members with the final 2016/17 Annual Governance Statement for their review and approval for inclusion in the annual accounts.

P Slater introduced the report, confirming the minor changes requested at the previous meeting had all been done.

The Chair requested that the Leadership Board be advised that the content had been considered in detail by the committee over the past couple of meetings.

RECOMMENDED – That Annual Governance Statement attached at Appendix 1 of the report was considered in detail and it was noted that it would be included in the annual accounts and would signed by the Chair of the Authority and Head of Paid Service.

17 **EXTERNAL AUDIT COMPLETION REPORT - YEAR ENDED 31 MARCH 2017**

Submitted: Report by External Auditor MAZARS LLP (previously circulated and a copy attached to official minute), which set out the findings of the audits of the NECA for the year ended 31 March 2017, and would formed the basis for discussion at the Leadership Board meeting on 19 September 2017.

C Waddell introduced the report. During discussions the following points were made:

- A comment was raised on there being no reference made in the report to the fact that the management team were appointed on an interim or temporary basis. The committee was advised that regular updates on the plans and

responsibilities were reported. The risk was logged and monitored. At this point, P Woods explained the historical background about the interim statutory officer appointments, confirming details of the current position. He also provided an update on the issues around the temporary appointment and arrangements for E Goodman, Senior Accountant, during her leave of absence, confirming that following recent interviews an appointment was pending. As a result of the legal requirements to close off the accounts earlier next year, support to that appointment, would be obtained through a junior member of staff being seconded.

- Clarification was sought around the wording in Appendix A – Summary of misstatements. It was confirmed that the wording would be amended to ensure clarity around there being no unadjusted misstatements 2016-17.

RECOMMENDED - That report be noted.

18 **STATEMENT OF ACCOUNTS 2016-17**

Submitted: Report by Chief Finance Officer (previously circulated and attached to official minutes), which presented the final, audited 2016/17 accounts for review by this committee. The 2016/17 audit programme was now largely complete and Mazars, the external auditor, expected to issue their opinion before the end of September. The NECA Leadership Board meeting scheduled on 19 September would receive the 2016/17 accounts for approval, taking into account any comments raised by this committee.

P Woods introduced the report, providing a detailed explanation of the key aspects. During discussion the following points were made:

- Reference was made to the comment about the largest area of capital expenditure being in relation to Transport and Digital Connectivity. Clarification was sought about the term 'digital connectivity'. It was agreed that the information reported to Leadership Board on the work and progress being made around digital connectivity would be consolidated and circulated to the committee.
- Clarification was provided about the reduction in metro patronage, with the possible reasons for the reduction being explained e.g. infrastructure renewal; metro reliability and aging fleet.
- Reference was made to conflicting figures included in the Chief Finance Officer's narrative report in relation to employment and skills. Clarification was also sought about the words used to describe the increase in rail passengers' journeys on local services. The Chief Finance Officer agreed to check the figures and ensure clarity was provided in the narrative of the report and at the Leadership Board that the increase in rail passengers' journeys on local services was 0.2million journeys.
- An explanation was provided about the initiatives used through soft loans on 'The Boiler Shop' and 'The Jesmond' projects.
- An update was provided on the current arrangements of development company, Arch.

RECOMMENDED - That the Statement of Accounts for 2016/17, including the amended accounting policies detailed in section 2.4 of the report and that it was to be presented to the Leadership Board for approval was noted.

19 **TREASURY MANAGEMENT 2017-18 MID-YEAR UPDATE**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which provided a summary of treasury management activity during 2017/18. The committee was advised that activity was in line with the original budget for the year and no changes to the strategy were proposed as part of this mid-year review.

RECOMMENDED - That the report be noted.

20 **DRAFT BUDGET 2018-19 - PROCESS AND TIMETABLE**

Submitted: Report by Chief Finance Officer (previously circulated and attached to official minutes), which set out the process and timetable for the preparation, consultation and approval of the 2018/19 budget and indicative medium term financial strategy, including consultation proposed with the committee.

P Woods introduced the report confirming that this committee would be included in the circulation of the Draft NECA Leadership Board Budget Report, which was timetabled for dispatched 14 November 2017.

RECOMMENDED - That the report be noted.

21 **STRATEGIC RISK AND OPPORTUNITIES REGISTER**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which provided members with an update of the Strategic Risks and Opportunities for the NECA.

P Slater introduced the report and agreed to circulate the web link to the NE LEP Strategic Risks, stating that the link would be included in future reports.

RECOMMENDED - That the report be noted.

C Waddell, External Auditor left the meeting at 3.30pm

22 **CONSULTATION ON AUDITOR APPOINTMENT FROM 2018/19**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which updated the committee on the national scheme for auditor appointments administered by Public Sector Audit Appointments (PSAA). It was explained that PSAA proposed to appoint Mazars LLP as the auditor of NECA for a five year period from 2018/19. This was in line with outcome that NECA and the committee had been seeking.

RECOMMENDED - That the details on the appointment be noted.

23 DATE AND TIME OF NEXT MEETING

Tuesday 5 December 2017 at 2.00pm, Northumberland County Council

A brief discussion took place on the format of the December meeting. Agreement was reached that a briefing session should be held between 1.30pm – 2.00pm, prior to the commencement of the meeting which gave a quick summary of the deferred presentation on Accounts 2017 (presentation slides that were provided to be circulated) and on finance in general. It was also agreed that an item be included on the agenda to enable the committee to consider an alternative name for the NECA Governance Committee.

It was confirmed that notes taken at this meeting would be presented and ratified at the December meeting.

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North East Combined Authority, Governance Committee

5 December 2017

Meeting held: Northumberland County Council, County Hall, Morpeth, NE61 2EF

Notes of an Inquorate Meeting

Independent Members: M Scrimshaw (Chair) and G Clark (Vice-Chair)

Councillors: E Bell (Durham), M Talbot (Newcastle), P Earley (North Tyneside) and M Speding (Sunderland)

Independent Person: S Gardner

24 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors G Hobson, C Johnson and M Swinburn.

25 **DECLARATIONS OF INTEREST**

None

26 **MINUTES AND NOTES OF PREVIOUS MEETINGS:**

(a) **4 July 2017**

AGREED – That the Minutes of the meeting held on 4 July 2017 be recommended for approval as a correct record.

(b) **Inquorate Meeting - Notes of 12 September 2017**

AGREED – That the notes of the inquorate meeting held on 12 September 2017 be noted.

27 **GENERAL DATA PROTECTION REGULATION (GDPR) AND THE IMPACT ON NECA'S INFORMATION GOVERNANCE POLICY**

Submitted: A report by the Monitoring Officer (previously circulated and attached to Official Minutes), which informed the Governance Committee of the changes required as part of the General Data Protection Regulation (GDPR) that would apply from 25 May 2018 and requested the Committee to consider the approach to the changes required for the NECA as attached at Appendix 1. An update would be detailed as part of the Internal Audit Report for the Committee in April 2018.

In discussion, it was noted that:

- In the light of the volume of work and the level of responsibility of the proposed Data Protection Officer, Members commented on the importance of an adequate, dedicated and appropriate staffing resource to undertake this important role.
- Members noted that, at this initial stage, work was focused on the audit of the following: information that was held by the Combined Authority; staff who held that information; and the governance arrangements currently in place around that information. The project team undertaking this audit was led by the Monitoring Officer.
- On advice from P Slater, Members noted that, whilst every constituent authority was obliged to comply with GDPR, it was important to confirm a NECA-level mechanism around GDPR.
- Members welcomed the workshop on GDPR for staff and asked for a similar workshop for Members.
- A Member asked whether the constituent local authorities had a good understanding of the changes that were coming as part of GDPR.
- The Chair asked whether NECA should have a single database with all relevant data as appropriate.

AGREED – That:

- i. The Committee noted the approach to the changes required for the NECA's Information Governance Policy as part of the General Data Protection Regulation (GDPR) as detailed in Appendix 1; and
- ii. Members' comments be noted and actioned as appropriate.

28 REQUEST APPOINT A GOVERNANCE SUB-COMMITTEE TO CONSIDER APPLICATIONS FOR DISPENSATIONS - NEWCASTLE INTERNATIONAL AIRPORT LIMITED BOARD

Submitted: A report by the Monitoring Officer (previously circulated and attached to Official Minutes), which requested the Committee to appoint a Governance Sub-committee for the purposes of considering applications that had been received from Councillor Simon Henig, Leader of Durham County Council and Councillor Iain Malcolm, Leader of South Tyneside Council for dispensation in relation to their registerable personal interests as Directors of the Newcastle International Airport Limited; and, if deemed fit, granting such dispensations.

As the Committee was inquorate, it could not appoint a Governance Sub-Committee.

AGREED – That:

- i. Due to the meeting being inquorate and the timetables involved, the Monitoring Officer would exercise the delegated authority that had been granted to him previously with regard to granting dispensations for Members of the Leadership Board, as required, under section 33 of the Localism Act 2011 in relation to their registerable personal interests as Directors of Newcastle International Airport Limited Board in order to enable them to participate in decision-making of the Leadership Board on matters relating to Newcastle International Airport Limited;
- ii. A workshop be organised for Members on the role of the Governance Committee and also the Governance Sub-Committee; and
- iii. As part of the review of the Constitution, consideration be given to adding the Independent Co-opted Chair (or the Independent Co-opted Vice-Chair to deputise whenever the Chair was unable to attend) to the membership of the Governance Sub-Committee.

29 ANNUAL AUDIT LETTER 2016/17

Submitted: A report by the Monitoring Officer (previously circulated and attached to Official Minutes), which presented the Annual Audit Letter for 2016/17. J Dafter of Mazars introduced the report.

In response to a Member's query, P Woods provided clarification on the future financial challenges associated with the transitional arrangements as a result of Brexit, including the timescales associated with the European Investment Bank reviewing investments and the position of the North East Fund.

It was noted that, whilst the North East LEP was involved in promoting the JEREMIE 2 funding initiative, as this funding was not received through the North East LEP the NECA was not the accountable body for the initiative and, therefore, JEREMIE 2 did not form part of the NECA accounts.

On advice from P Woods, Members noted the challenges associated with the early closure of the annual accounts and the work to recruit an additional staffing resource to assist in the preparation of the annual accounts.

A discussion took place on the IT system used by the NECA to prepare the annual accounts, which was also used to conduct the internal audit process, and its compatibility with the systems of the constituent local authorities. It was noted that, currently, the constituent local authorities and partners were required to provide relevant information which was then incorporated into the current system as also used by Newcastle City Council. P Woods confirmed that the system was a good system. With regard to future arrangements, P Woods advised on continuity, suggesting that any changes needed careful planning and would take time.

AGREED – That the report be received and noted.

30 DRAFT BUDGET 2018-19 CONSULTATION

Submitted: A report by the Chief Finance Officer (previously circulated and attached to Official Minutes), which sought views of the Governance Committee on proposals for the setting of the 2018/19 NECA Budget, as part of its consultation process. A summary report on the Draft 2018/19 Budget had been presented and approved at the Leadership Board on 21 November and attached as an appendix to this report.

In discussion, the Committee made the following comments:

- With regard to Nexus' budget, the Committee expressed concern about the potential impact on staff and front line services of prospective savings that were to be identified for future years from 2019/20 onwards. In response, P Woods advised that work continued to seek funding options for future years.
- A comment was made about some areas of NECA, such as Durham and Northumberland, having a greater reliance of on bus services and the importance of giving this matter a careful consideration when considering future services. A comment was also made about the importance of continuation of effective bus services, including secured services for the elderly and concessionary travel, in the areas that relied greatly on bus services for access.
- In appreciating the reasons for the segregation of transport policies of Tyne and Wear, Durham and Northumberland, a comment was made about the need for a better integration of transport between these areas.
- A comment was made about the importance of ensuring that financial contributions for transport from local authorities were distributed equitably and in accordance with the transport needs and usage in those areas.
- A Member thought that a recent statement from the government that suggested that the funding for the new Metro fleet was "funding for the North East" was misleading as only some areas of the North East would benefit from that investment.

It was also noted that:

- Clarification was provided on the funding for the new Metro fleet, including the amount received from the government and the source of the £25 million contribution that was provided by Nexus.
- Members noted the challenges associated with the lack of funding in future for the engineering infrastructure of Metro and that work continued to identify possible funding sources. It was also noted that the funding that would be received as part of the devolution deal for the emerging North of Tyne combined authority could be of assistance.
- It was envisaged that there would be a joint Transport Board that would oversee transport on behalf of both the NECA and the emerging North of

Tyne combined authority. It would be part of the responsibilities of the Board to consider transport levies of future years.

- In response to a Member's concern, P Woods explained that Durham and Northumberland did not subsidise Metro. Clarification was also provided on the segregation of funding for transport between Durham, Northumberland and Tyne and Wear as agreed by these areas upon the setting up of NECA.

AGREED – That:

- i. The budget report be received and noted; and
- ii. The Committee's comments be noted as part of the consultation process.

31 STRATEGIC RISKS AND OPPORTUNITIES REGISTER

Submitted: A report by the Audit, Risk and Insurance Manager (previously circulated and attached to Official Minutes), which provided an update on the Strategic Risks and Opportunities for the North East Combined Authority. It was noted that the report was prepared in the knowledge of but prior to the announcement of the devolution deal for the three local authorities north of Tyne.

In discussion, it was noted that:

- In the light of the emerging North of Tyne combined authority, the NECA could choose to undertake a governance review, although there was no obligation to undertake this work. It was understood that a governance review would be undertaken.
- Members were reminded that the NECA was created by the Order of the Secretary of State. Any changes to the NECA's composition or name would require another Order.
- Clarification was provided of the term "notional allocation of funding", which meant the funding was provisionally allocated for spending but this type of allocation could be withdrawn at any time.
- The sums of money referenced under the section titled "European Funding 2014-2021" in Appendix B should all read "Euros" rather than "Pounds".
- Members asked about proposed arrangements for a governance committee for the emerging combined authority for the North of Tyne, the remaining North East Combined Authority and the North East Local Enterprise Partnership (North East LEP).

It was noted that arrangements for the emerging combined authority for the North of Tyne would be considered in due course. Both combined authorities would require a governance committee.

With regard to the North East LEP, this committee remained the governance committee for the North East LEP and future arrangements would be confirmed in due course.

AGREED – That:

- i. The Committee reviewed the outcome of the strategic risk review; and
- ii. The Committee recommended that future arrangements with regard to a governance committee be added to the risk register.

32 **INTERNAL AUDIT PROGRESS REPORT**

Submitted: A report by the Audit, Risk and Insurance Manager (previously circulated and attached to Official Minutes), which provided the Committee with information on progress against the delivery of the 2017/18 internal audit plan and information on the implementation of audit recommendations.

AGREED – That the Committee noted the internal audit activity.

33 **ANNUAL GOVERNANCE STATEMENT**

Submitted: A report by the Audit, Risk and Insurance Manager (previously circulated and attached to Official Minutes), which introduced the assurance framework for the production of the 2017/18 Annual Governance Statement and considered the sources of assurance required to support it.

AGREED – That the Committee agreed the approach to be taken to produce the 2017/18 Annual Governance Statement, including NECA's assurance framework.

34 **DATE AND TIME OF NEXT MEETING**

Tuesday, 3 April 2018 at 2.00pm, Sunderland City Council

Governance Committee

Date: 3 April 2018

Subject: Appointments of Independents / Non Council Members

Report of: Monitoring Officer

Executive Summary

The purpose of this report is to invite the Governance Committee to endorse the procedure and principles relating to the recruitment of independent members to NECA Committees – where the NECA Constitution requires such appointments.

Recommendations

The Governance Committee is recommended to consider and, if deemed fit, endorse the standard process to be followed for the recruitment and selection of independent members to NECA Committees.

Governance Committee

1. Background Information

- 1.1 The NECA Constitution provides for independent members to be part of its governance system. For example, the Constitution requires that the Governance Committee has two non-voting, co-opted independent members (who act as Chair and Vice Chair) and an independent person for the purposes of the standards regime who can be invited to observe at meetings. The Overview and Scrutiny Committee has two non-voting, independent members (who act as Chair and Vice Chair).
- 1.2 Slightly different processes have been applied when recruiting to these posts and the purpose of this paper is to set out a consistent standard, compliant with the applicable legal rules for these appointments, where they are prescribed.

2 Proposals

- 2.1 When a vacancy arises it will be advertised on the North East Combined Authority, North East Local Enterprise Partnership and constituent authority websites (including aggregation websites such as www.northeastjobs.org.uk).
- 2.2 A detailed role specification will be reviewed and updated for each post setting out the criteria for appointment – both those considered essential and those desirable. The role specification will be checked with the HR Department and where possible the existing post-holder and/or suitably knowledgeable members of the committee. The specification will include details of the anticipated time commitment and any remuneration paid or expenses that can be recovered.
- 2.3 During the recent development of the Overview and Scrutiny Committee protocol, members of that committee raised the question of whether committee members should be involved in the recruitment and selection process. The Monitoring Officer will ensure that the role specification is checked with at least one member of the committee and, once finalised, the advert and role specification will be circulated to all members of the relevant committee. The Governance Committee may wish to comment on this proposed engagement with the committee and also consider involvement in the recruitment interviews which is discussed at 2.5 below.
- 2.4 The role will be advertised for a period of not less than two weeks. Applications received will be shortlisted against the criteria in the role specification. If fewer than three applications are received for the role, consideration will be given to extending the deadlines for applications and/or extending the publicity of the posts.
- 2.5 The shortlisting process will be conducted by two NECA Officers, one of whom will be the Monitoring Officer. It has not been the practice in the past for a member of the relevant committee to be involved in shortlisting or in the subsequent interview process. It is possible that a member of the Committee could be involved in this process. This requires careful consideration as the post is independent and in the

Governance Committee

case of Overview and Scrutiny has legal restrictions requiring political independence. The Governance Committee may wish to discuss the relevant merits of involving a committee member and whether or not that member should Chair the Panel or simply be a member of it. The usual rules will of course apply that the Panel should not interview a person who is a relative or has a close connection to a Panel member. The Monitoring Officer cannot see an objection to member participation – which may well add considerable value – but questions whether the political member is the correct choice to Chair the Panel and would welcome the Committee's guidance.

- 2.6 In accordance with best practice standards all candidates will be interviewed on a consistent basis and notes maintained so that feedback can be provided to all candidates.
- 2.7 Successful candidates will be invited to sign a letter of appointment setting out the role and their responsibilities to the Committee and Combined Authority. Whilst an appointee can of course resign on reasonable notice (as agreed in the letter of appointment) it is anticipated that all appointments will be made for a period of 2 or 3 years and that by mutual agreement these appointments may be extended for successive periods not exceeding a total of six years. This reflects accepted best practice that post-holders can become less able to exercise dispassionate judgement and independence after a particularly long period of service.
- 2.8 The Monitoring Officer will also like to seek the Committees view on the proposal to introduce a system of periodic committee effectiveness reviews. It is proposed that at least once in every two years committees review their own effectiveness through a self-assessment questionnaire and a discussion of the collective responses at a subsequent meeting. This will allow effectiveness to be monitored and practical changes to be made in response to any suggestions for improvement. It is suggested that the Governance Committee should, in addition to considering its own effectiveness, receive a composite report on the self-assessment exercises undertaken by the other committees with a view to making organisation-wide recommendations to the Leadership Board. As part of this process the effectiveness of the independent members could also be commented upon, to help inform the decision about whether the Monitoring Officer should extend the independent members appointment.
- 2.9 In determining if an independent members appointment should be extended the Monitoring Officer will have regard to:
- The record of attendance at committee meetings;
 - Feedback from the effectiveness reviews;
 - The willingness of the individual to serve;
 - Succession planning with a view to staggering the Chair and Vice Chair vacancies.

Governance Committee

3. Reasons for the Proposals

- 3.1 A standardised process should underpin good governance and clarify expectations on all sides.
- 3.2 As the Combined Authority only came into existence in 2014, the process for renewing appointments is currently under consideration and the Committee's input is greatly appreciated in informing this process.

4. Next Steps and Timetable for Implementation

- 4.1 If endorsed, template documents will be reviewed, updated or created as necessary. The whole process will then be proposed to the Leadership Board for approval.

5. Potential Impact on Objectives

- 5.1 None

6. Financial and Other Resources Implications

- 6.1 None

7. Legal Implications

- 7.1 In implementing this process the Combined Authority will of course honour all existing commitments to post-holders and this process will only be applied when those posts fall vacant.

8. Key Risks

- 8.1 Failure to secure high quality candidates who understand and are capable of discharging their role – leading to sub-optimal decision making.

9. Equality and Diversity

- 9.1 There are no equality and diversity implications.

10. Crime and Disorder

- 10.1 There are no known risks regarding crime and disorder.

Governance Committee

11. Consultation/Engagement

11.1 Consultation has been undertaken with Chief Legal Officers.

12. Other Impact of the Proposals

12.1 There are no other known impacts as a result of this report.

13. Appendices

13.1 None

14. Background Papers

14.1 NECA Constitution

15. Contact Officers

15.1 Peter Judge
Monitoring Officer
peter.judge@northeastca.gov.uk
07342 069 371

16. Sign off

Head of Paid Service: ✓

Monitoring Officer: ✓

Chief Finance Officer: ✓

17. Glossary

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Governance Committee

Date: 3 April 2018

Subject: Proposals for the June Constitutional Review

Report of: Monitoring Officer

Executive Summary

The paper discusses proposed changes to the NECA Constitution and invites the Committee to comment upon the proposals.

Recommendations

That the Committee consider, comment upon and, if deemed fit, endorse the proposals for changes to the Constitution by the Leadership Board at its annual meeting in June 2018 (noting the changes necessary will depend upon whether a Secretary of State's Order has been made amending the boundaries of the Combined Authority by that date).

The Committee will specifically wish to discuss and make recommendations on the new quorum level to be recommended in relation to the Governance Committee and Overview and Scrutiny Committee as discussed at 2.3 to 2.6 in the paper.

Governance Committee

1. Background Information

- 1.1 In accordance with the NECA Constitution, the Monitoring Officer is required to keep it constantly under review with a formal review on an annual basis. The next formal review will be reported to the Leadership Board Annual meeting in June 2018.
- 1.2 This paper addresses three aspects of Constitutional review – first, those changes proposed by the Governance Committee; secondly those proposals required following the last review, due for example to changes in the law; and thirdly comments on changes that will be required should the area of the Combined Authority be changed and the removal of three constituent authorities, North of the Tyne.

2 Proposals

Constitutional Changes proposed by the Governance Committee

- 2.1 The following changes have been proposed at various meetings of the Committee and the Committee is invited to endorse these, or make amendments or suggestions as appropriate.

Ref	Proposal	Reason
Section 3.8	That the name of the Committee be changed to “Audit and Standards Committee”	To more clearly reflect the role and remit of the Committee.
Section 3.8	Please see discussion at Section 2.2 of the paper below.	There are currently nine members with the quorum being 50% (5). The Committee has experienced difficulties achieving a quorum.
Section 3.8 Governance Sub-Committee	It is proposed that the Chair or Vice Chair of the Committee should be present at meetings of the Sub-Committee in the same manner as the independent person.	Practicality.
Section 6.1, Annex 4	Reference to the Governance Sub-Committee Should be changed to the Governance Committee.	To make it clear that the Governance Committee may grant a dispensation without convening a sub-committee meeting in each place.

Governance Committee

Constitutional Changes raised by the Overview and Scrutiny Committee

- 2.2 The Overview and Scrutiny Committee is experiencing similar difficulties to the Governance Committee in relation to quorum. This has resulted in a number of meetings during the preceding 12 months being inquorate. The Committee has requested that consideration be given to the quorum being reduced. The Overview and Scrutiny Committee has fourteen members (two from each of the constituent authorities plus two non-voting members – the Chair and Vice-Chair). Including these independent members the quorum is eleven.
- 2.3 Accordingly the quorum requires a minimum of five authorities to be represented by both members. Thus expressed in percentage terms the quorum equates to a minimum of 71.4% attendance. The requirement for two members from each authority, and accordingly a large committee, does of course give greater opportunity to represent political balance and participation from across the constituent authorities.
- 2.4 The quorum arrangements could be changed. A reduction on the basis of two members per authority but at 50% attendance, plus the Chair would reduce the quorum to nine members. Alternatively the quorum could be expressed to require one member to attend from 50% of the authorities. Expressed in those terms a valid meeting could be held with a minimum of four members, plus the Chair or Vice Chair. As a further alternative, the 50% rule could be changed to adopt a lower percentage quorum for both the Overview and Scrutiny Committee and the Governance Committee.
- 2.5 The Governance Committee quorum is currently five of the seven authorities (the same 71.4% as the Overview and Scrutiny Committee). Reducing this to 50% would reduce the quorum from five to four.
- 2.6 The Governance Committee is invited to consider whether the proposals set out at 2.4 and 2.5 to reduce the quorums of both the Governance Committee and Overview and Governance Committee to 50% is sufficient to address the requests from those committees or whether a recommendation should be made to the Leadership Board that the quorums should be reduced still lower by reduction of the 50% rule. The Committee will wish to take advice from internal and external auditors, if present, and NECA Statutory Officers.

Constitutional Changes arising out of changes in the Law and other matters arising since the last annual meeting

- 2.7 Part 4.1, paragraphs 32 and 33 (Special Urgency and Urgent Decisions): The current procedure dealing with matters not being placed on the Forward Plan and being made when it is not practical to convene a quorate meeting of the

Governance Committee

appropriate body require updating to reflect the procedure prescribed by the Combined Authority's (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017. This Order (Articles 12 and 13) deals with exemptions from the Forward Plan and cases of urgency. Under these rules where it is impractical to put a key decision on the Forward Plan, the Chair of the Overview and Scrutiny Committee must be informed, a notice setting out reasons must be published on the Authority's website and five clear days must have elapsed. In these circumstances the decision may be made without inclusion on the Forward Plan. If less than five days notice can be given then the Chair of the Overview and Scrutiny must additionally agree that the decision is "urgent and cannot reasonably be deferred". The reasons for this must also be published.

2.8 To reflect these changes, it is proposed that Sections 32 and 33 are updated to make reference to the role of the Chair of the Overview and Scrutiny Committee (or in their absence the Vice-Chair) in addition to those already required to be notified or to agree to the urgency.

2.9 On the basis of Leading Counsel's advice it is necessary for certain matters to be removed from the list of matters requiring the unanimous decision of the Leadership Board (and which cannot be delegated and are expressly reserved by Part 1, Article 13.4 of the Constitution).

2.10 Leading Counsel has advised that only matters upon which unanimity is prescribed by the Order should be treated as such by the Constitution, accordingly the following sections should be removed from Section 3.1(A) of the Constitution and moved into 3.1(B):

Point 9 (the transfer of any further functions by Constitution authorities to NECA). Noting in practice this will be a decision for each constituent authority in any event.

Point 10 (the appointment of any individual co-optee to the Leadership Board),
Point 11 (the use of general powers of competence beyond the powers provided in the Local Democracy, Economic Development and Construction Act 2009).

Point 12 (the approval of any amendments to the NECA Constitution...).

Point 13 (the appointment of a Statutory Chief Officer...).

Point 14 (the designation of NECA's Head of Paid Service).

2.11 It is proposed to add these points under point 30 and to renumber accordingly.

2.12 In light of confusion caused by the introductory words of Section 3.1 namely, "in the absence of specific delegations to other bodies referred to in the Constitution (including committees and sub-committees of the Leadership Board), all functions remain with the Leadership Board" it is proposed that these words be deleted. It is believed that these words are not necessary as the North East Combined Authority is at law a corporation aggregate empowered by statute.

Governance Committee

Accordingly all authority is exercised through its Leadership Board unless expressly delegated. Mechanisms for delegation are included in the Constitution, including delegations to Statutory Officers and others. The Leadership Board and indeed the Governance Committee are likely to receive higher levels of assurance from reports explaining how delegation is functioning than this constitutional reference which creates uncertainty around the status of other delegations.

- 2.13 As a consequence of these amendments and in general, cross-referencing throughout the Constitution will be reviewed and updated under the Monitoring Officer’s delegation.

Changes that would be required by an order amending the NECA boundary

- 2.14 The following amendments would be required if an order were made to change the NECA boundary to remove the three North of Tyne authorities. The principal amendments are addressed in the table below:

Ref	Proposal	Reasons
Part 1 Introduction	To specify that the Constitution are standing orders as envisaged by the order. Update “united in purpose, boldness of vision and determination preamble”.	To avoid confusion as to the status of the Constitution. To reflect changes in the order.
Part 1, 1	Update definitions of ‘Constituent Authorities’, ‘NECA’ and ‘Delivery Agencies’.	To reflect the changes introduced by the new order and boundary.
Part 1 ,1	Remove references to “TNEC” and “TWSC” and update to reflect joint transport committee arrangements.	To reflect the changes introduced by the new order and boundary.
Part 1, 2	To update the history section to reflect the most recent changes.	To reflect the changes introduced by the new order and boundary.
Part 3	Update membership and quorum to reflect one member of the constituent authority and non-voting LEP member with a quorum of 50%. Update unanimous decision making to reflect the	To reflect the changes in the boundary and smaller number of constituent authorities.

Governance Committee

	requirements as amended by the order.	
Parts 3.2 and 3.3	Remove and replace the provisions relating to the Transport North East Committee and the Tyne and Wear Sub-Committee with provisions referring to the Joint Transport Committee.	To reflect the changes introduced by the new order and boundary.
Part 3.4	Remove reference to Northumberland County Council and amend to reflect joint transport arrangements.	To reflect the changes introduced by the new order and boundary.
Part 3 various	Amend membership and quorums of all committees to reflect change of membership and a quorum of 50%.	To reflect the changes in the boundary and smaller number of constituent authorities.

3. Reasons for the Proposals

- 3.1 The annual review of the Constitution is a requirement set out in the NECA Constitution and in the NECA Deed of Operation.
- 3.2 The proposals are informed by comments made by the Committees during the course of the previous year, and changes in the law or best practice since the relevant section was last updated.
- 3.3 Maintaining an up-to-date constitution and rules of procedure supports effective governance and thereby good decision making practices.

4. Next Steps and Timetable for Implementation

- 4.1 If the Committee is minded to endorse the described Constitutional changes, the Monitoring Officer will prepare amendments accordingly which will be presented to the Combined Authority's Leadership Board in June 2018.
- 4.2 The Leadership Board will be required to agree amendments to the constitution by simple majority. Leading Counsel has advised that the reference to the unanimity requirement for this change (by Part 3.1(12) of the Constitution) is ultra vires as the Order creating NECA (SI2014 No. 1012) does not prescribe that this matter must be determined unanimously.

Governance Committee

5. Potential Impact on Objectives

5.1 Maintaining good governance and effective decision making ultimately supports the achievement of objectives.

6. Financial and Other Resources Implications

6.1 Updates to the Constitution can be done using existing resources without material additional costs.

7. Legal Implications

7.1 None as a result of this paper. If changes are made to the Constitution by the Leadership Board, it will change the way the Combined Authority operates in relation to the matters changed.

8. Key Risks

8.1 Maintaining an up-to-date Constitution limits the risk of any suggestion that a decision has been made in less than the appropriate way. There is a small risk that Officers do not heed the changes to the Constitution and careful monitoring is required to ensure up-to-date procedures are followed. However, this risk is almost mitigated by systems of control and oversight by the NECA Statutory Officers of the Committee processes and constitutional matters.

9. Equality and Diversity

9.1 None

10. Crime and Disorder

10.1 None

11. Consultation/Engagement

11.1 Chief Legal Officers of the constituent authorities, the NECA Policy and Scrutiny Officer and the NECA Statutory Officers have all been consulted. The Committees (or their Chairs) have been consulted in relation to matters affecting their committee.

12. Other Impact of the Proposals

12.1 None

Governance Committee

13. Appendices

13.1 None

14. Background Papers

14.1 Previous Constitutional review papers.

15. Contact Officers

15.1 Peter Judge,
Monitoring Officer
peter.judge@northeastca.gov.uk
Tel: 0191 338 7455

16. Sign off

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

17. Glossary

Governance Committee

Date: 3 April 2018

Subject: North of Tyne – Governance Update

Report of: Monitoring Officer

Executive Summary

The purpose of this report is to provide the Committee with an update on the recent consultation on North of Tyne proposals, including the creation of a North of Tyne Combined Authority following the amendment of the current North East Combined Authority (NECA) boundaries. In addition, the report discusses a draft Order received from the Secretary of State giving effect to the amendment of NECA boundaries, the creation of the North of Tyne Mayoral Combined Authority, the creation of Joint Transport governance arrangements and similar matters and comments upon the governance implications.

Recommendations

This paper invites the Governance Committee to note the report.

Governance Committee

1. Background Information

- 1.1 The North of Tyne Authorities (Newcastle upon Tyne, North Tyneside and Northumberland) have agreed to a “minded to” Devolution Deal with Government. In order to implement this deal there is a requirement to establish a new North of Tyne Mayoral Combined Authority, which in itself requires these Councils to withdraw from the existing North East Combined Authority. These Authorities undertook a governance review in accordance with the Local Democracy, Economic Development and Construction Act 2009 and concluded that the creation of a new combined authority “would be likely to improve the exercise of statutory functions in relation to the area”. This conclusion related both to the area of the seven constituent authorities and the three that would form the new North of Tyne Mayoral Combined Authority.
- 1.2 A public consultation was undertaken between 14 December 2017 and 5 February 2018, which included public events across the NECA area. In total around 1,400 people or organisations took part in the consultation process and/or responded to four questions via a survey. A majority of respondents to each question agreed with the proposals to develop a North of Tyne Mayoral Combined Authority.
- 1.3 The North of Tyne Authorities’ Cabinets each approved the submission of a report to the Secretary of State seeking the making of an Order to implement a proposal by them (as detailed in a Scheme published and consulted upon) to create a Mayoral Combined Authority for the North of Tyne area, to amend the North East Combined Authority boundary to allow this to happen and to create joint arrangements for the governance of transport across the area of the seven local authorities.
- 1.4 The Ministry of Housing, Communities and Local Government (**‘MHCLG’**) are developing a draft Order and the first draft was circulated for comment on 6 March 2018. A meeting with Departmental officials has also taken place. In addition to minor drafting points, there were a number of significant points to be decided and some sections of the draft which were yet to be completed. The Leadership Board received a report on progress at its meeting on 20 March 2018. The constituent authorities will be writing to the Department to clarify the following points and to encourage a further draft to be produced by the Department as soon as possible so that a decision may be made about it, hopefully during April 2018:
- Propose that any Order commences on 1 July 2018 (or the beginning of the following financial quarter), to reflect the end of a financial quarter and to support smooth financial transition.
 - That the legal names of the 2 Combined Authorities will be made up of the constituent local authority areas namely (1) the Durham, Gateshead, South Tyneside and Sunderland Combined Authority; and (2) the

Governance Committee

Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority.

- A provision should be included for the Transport Joint Committee to appoint a proper officer, who would be accountable to that Committee.
- The quorum for the Joint Transport Committee should be 2 members from each Combined Authority.
- To confirm which transport matters would require a unanimous decision to approve.

1.5 All engagement with MHCLG is conducted on the basis that they do not bind the Authority or its members, and the final decision about consent to the final draft Order absolutely remains with North East Combined Authority Leadership Board.

2. The draft Order

2.1 The current draft Order comprises eight parts and four schedules addressing the following issues:

Part 1 (Articles 1 and 2)

2.1.1 Contains the short title of the Order (currently “the North of Tyne Combined Authority Order 2018”) and makes provision for the date that the Order will come into force. At the meeting on 9 March MHCLG indicated that the order can make provision for a specific commencement date to be identified which should provide greater certainty to all parties as to when the changes will take effect.

2.1.2 Part 1 also addresses various defined terms.

Part 2 (Articles 3 and 4)

2.1.3 Deals with the boundary changes to the North East Combined Authority. Article 3 removes Local Government areas of Newcastle upon Tyne, North Tyneside and Northumberland. It also makes various amendments to change the legal name of the Combined Authority from the “Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority”. MHCLG have confirmed that the legal name of the Combined Authority can be amended to simply exclude the names of the Newcastle upon Tyne, North Tyneside and Northumberland.

2.1.4 This Part also permits NECA to raise two different transport levies (in relation to the constituent authorities in Tyne and Wear and in relation to Durham County). There are similar powers later in the Order by which the North of Tyne Mayoral Combined Authority may raise different levies in relation to its area. This reflects the current arrangements within NECA where there are different levies for

Governance Committee

Durham, Northumberland and Tyne and Wear.

Part 3 (Articles 5 to 8)

- 2.1.5 Establishes the North of Tyne Mayoral Combined Authority and makes provision for the first election of a Mayor on 2 May 2019. It also makes various provisions for the appointment of a political adviser to the Mayor.

Part 4 (Articles 9 to 14)

- 2.1.6 Makes provisions relating to transport. It provides the North of Tyne Mayoral Combined Authority with the same transport functions over its area as NECA currently has, in respect of its area. It transfers the transport assets which are currently owned by NECA (which essentially are the Tyne Tunnels and associated land) into the joint ownership of both Combined Authorities.
- 2.1.7 A Joint Transport Committee is established under Article 10 to discharge the transport functions of both Combined Authorities and to determine anything to be done in relation to property, rights and liabilities held in relation to transport. The Joint Committee also expressly sets the transport levies. In short, the Joint Committee is intended to replicate the existing approach to transport governance across the NECA area.
- 2.1.8 By Article 10 (2) the Joint Transport Committee may delegate those functions to an officer of either Combined Authority or sub-committee or to a constituent council for the area in relation to which the function is to be exercised. MHCLG have been asked to consider amending the draft Order to allow a subcommittee to include members of the constituent councils who are not members of the Combined Authorities, which reflects the current approach to wider participation from constituent authorities but without creating any obligation to adopt this approach.
- 2.1.9 In accordance with the transport policy note, MHCLG has been asked to provide for the Transport Joint Committee to appoint a proper officer to support its work. The mechanism will be addressed in more detail in the side agreement referred to below.
- 2.1.10 In accordance with Article 12 the Tyne and Wear Passenger Transport Executive (NEXUS) becomes an executive body of the North of Tyne Mayoral Combined Authority. NEXUS will also remain as an executive body of the North East Combined Authority. MHCLG have been asked to consider whether this point can be acknowledged explicitly in the order. It is noted that this is the effect of the modifications to the Transport Act 1968 made by the draft Order.

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- 2.1.11 The Part goes on to make various amendments to the Transport Act 1968 and the Transport Act 2000 to give effect to the above changes, giving responsibilities to NEXUS for both Combined Authorities in relation to activities in each of their areas.

Parts 5 to 7 (Articles 15 to 23)

- 2.1.12 These parts deal with the functions which the North of Tyne Mayoral Combined Authority will have. These include:
- certain housing functions which the Combined Authority will be able to exercise concurrently with the constituent councils and with the Homes and Communities Agency;
 - the power to establish mayoral development corporations;
 - functions relating to education, skills and training and certain other functions in relation to economic development and visitor attractions which are exercisable concurrently with the constituent authorities.
- 2.1.13 The draft Order also makes incidental provisions in relation to the Local Government Pension Scheme and other regulations.
- 2.1.14 Article 22 (6) of the draft Order amends the Transport Levying Bodies Regulations 1992 and makes specific provisions in relation to levies issued by the North East Combined Authority and North of Tyne Mayoral Combined Authority. These provisions permit the application of different levies across Tyne and Wear, Durham and Northumberland and the mechanics for that process.

Part 8 (Articles 24 and 25)

- 2.1.15 Deals with the Mayoral functions and funding arrangements applicable to the North of Tyne Mayoral Combined Authority.

Schedule 1

- 2.1.16 Sets out the constitution for the North of Tyne Mayoral Combined Authority, including arrangements in relation to the interim Mayor and the eligibility for funding to that office.

Schedule 2

- 2.1.17 Addresses the constitution of the Joint Transport Committee. Article 1 of that Schedule addresses membership, confirming that the North of Tyne Mayoral Combined Authority may appoint three members (and three substitute members), one of the members being the Mayor, unless the Mayor agrees otherwise. The North East Mayoral Combined Authority may appoint four members (and four substitutes).

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- 2.1.18 Article 2 makes procedural provisions. It currently proposes a quorum of one member per Combined Authority but MHCLG have indicated that this can be amended to provide a quorum of 2 members from each combined authority. There will be no casting vote and a tied vote results in the matter not being carried.
- 2.1.19 The draft Order also sets out those matters which require a unanimous vote in favour by all seven constituent authority members. These are currently described as follows:
- a) the adoption of any transport plan under section 108(3) of the Transport Act 2000 and the alteration or replacement of that plan under section 109(1) and (2) of that Act;
 - b) approval of, or any amendment to, or withdrawal of, spending plans related to the functions conferred on the Joint Transport Committee under article 10(1);
 - c) setting of any transport levy under section 74 of the Local Government Finance Act 1988 and in accordance with regulations made thereunder;
 - d) allocation of local transport plan funding to the individual constituent councils and the Tyne and Wear Passenger Transport Executive;
 - e) approval of all capital and revenue matters relating to the transport budget; and
 - f) the delegation of the functions referred to in Article 10(2) (being the Joint Transport Committee's authority to discharge its functions through a constituent council, an officer of either Combined Authority or a sub-committee of members or substitute members of either Combined Authority).
- 2.1.20 Discussions are on-going with MHCLG to ensure that these matters are consistent with the transport matters which require unanimity within the existing NECA arrangements and reflect the requirements of the Combined Authorities.
- 2.1.21 Article 3 of the Schedule provides for a Joint Overview and Scrutiny Committee of the Joint Transport Committee. MHCLG have been invited to consider these arrangements and, those for audit committee, arrangements in relation to transport and arrangements for the Transport Joint Committee to adopt its own procedural rules.
- Schedule 3**
- 2.1.22 Modifies the Housing and Regeneration Act 2008 to empower the North of Tyne Mayoral Combined Authority in place of the Home and Communities Agency in relation to powers falling within Chapters 1 and 2 of Part 1 of that Act, including for example the rights of compulsory purchase.

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Schedule 4

2.1.23

Modifies part 8 of the Localism Act 2011 to give certain mayoral development corporation powers to the Mayor and the North of Tyne Mayoral Combined Authority in relation to their area.

3. Procedural Considerations – side agreement

3.1 The seven constituent authorities have prepared a joint policy note regarding these working arrangements in relation to transport and Heads of Terms for a legally binding agreement have been agreed by the seven authorities reflecting the principles in this policy note. In particular, this side agreement will:

- acknowledge the principle of strengthened arrangements between the seven local authorities as set out in the policy note;
- establish the arrangements for the Transport Joint Committee in respect of remit, composition, quorum, decision-making, ability to delegate functions and establish subcommittees, audit and scrutiny; and
- make provisions about accountable body responsibilities.

3.2 It is currently anticipated that the side agreement will be executed on the same day that consent is given and that a new North of Tyne Mayoral Combined Authority will become a party to the agreement shortly after it comes into existence.

4. Reasons for the Proposals

4.1 The consent of the North East Combined Authority is a statutory obligation contained in Section 106(3A)(b) of the Local Democracy, Economic Development and Construction Act 2009.

4.2 This condition must be satisfied before the Secretary of State may make an order under Section 106.

5. Alternative Options Available

5.1 None in relation to this paper.

6. Next Steps and Timetable for Implementation

6.1 It is anticipated that an extraordinary meeting of the Leadership Board will be called. The date of this meeting will be determined by Members' availability and the availability of a further developed draft Order from MHCLG. The usual procedure will require the item to be considered to be placed on the

Governance Committee

Forward Plan 28 days before the meeting; however, in cases of urgency this process may be shortened.

- 6.2 If the decision is not to consent, the conditions required by Section 106 of the 2009 Act have not been met and the Secretary of State cannot proceed to make the Order.
- 6.3 If the decision is to grant consent, the Secretary of State will review all the relevant material to determine if an Order should be made.

7. Potential Impact on Objectives

- 7.1 The functional operations in relation to the North East Local Enterprise Partnership (for which NECA is the accountable body) and transport should continue with little disruption. The new transport governance arrangements are designed to replicate the existing transport arrangements and the proposal to work to a specified commencement date should provide the opportunity for the management of any operational changes as a result of the new governance arrangements.
- 7.2 There will be human resources and other legal and operational implications if assets and functions are moved between the Combined Authorities but these can be addressed by officers in accordance with usual practices.
- 7.3 NECA is party to an accountable body with the North East Local Enterprise Partnership and any changes to current arrangements must have regard to the obligations of that agreement.

8. Financial and Other Resources Implications

- 8.1 It is anticipated that the 'minded to' Devolution Deal would, when implemented, bring significant additional funding to the North of Tyne Mayoral Combined Authority. Assurances were sought from Government that this would not be at the detriment of NECA or its constituent authorities and a letter has been received providing assurances in relation to no detriment.
- 8.2 The current arrangements for the Transport Levies are proposed to continue, with three separate levies, and the levy for transport costs in Tyne and Wear continuing to be based on a population share. There is therefore no proposed change in the arrangements for the largest funding source for Transport, and the transport levies currently make up over 99% of the NECA revenue budget.
- 8.3 The constituent authorities will need to make arrangements for the funding of the operations carried out on behalf of the seven authorities by the two Combined Authorities and the other functions these combined authorities are

Governance Committee

required to discharge. These costs are relatively small. Currently, they are a £300,000 Corporate Contribution to NECA, a £250,000 contribution made towards the North East LEP Core Costs and a £140,000 contribution being made towards the cost of the inward investment function, all being made equally by all seven councils. Corporate contributions to the North East LEP and to fund the accountable body responsibilities for the North East LEP and for the Transport function will continue to be required from all seven authorities, whichever authority is accountable for them. The impact on the residual cost of NECA is expected to be minor and will not be known until operational decisions are taken later in the year in respect of accountable body functions and the future arrangements for the administration of NECA are determined. The working assumption is that detriment will be avoided or minimised by continuing current arrangements where it is possible to do so.

8.4 The NECA Constitution will be substantially obsolete at the point the Order is made and will need to be rewritten. Similarly, it is anticipated that standing orders will need to be developed for the Joint Transport governance arrangements. The amendment to the Constitution and the side agreement gives the opportunity to ensure that the decision making process and voting arrangements for securing the unanimous decisions of the Joint Transport Committee and NECA are clearly set out to ensure that the decisions are taken effectively.

8.5 There may be some actions relating to the transfer of assets and staff between the two Combined Authorities. It will be important for the North East LEP to maintain the current link with the Transport pension arrangements, which brings a significant savings to the North East LEP Budget.

9. Legal Implications

9.1 The giving of consent is likely to result in an Order being made to amend the NECA boundary to remove the Local Authority areas of Newcastle upon Tyne, North Tyneside and Northumberland from the area of the North East Combined Authority and the other changes discussed in this paper. NECA will continue to exist with four constituent authorities – Durham, Gateshead, South Tyneside and Sunderland.

9.2 The Monitoring Officer, working with the Chief Legal Officers of each Constituent Authority, has obtained Leading Counsel's opinion on various matters relating to the decision members are being invited to make. A copy of that opinion has been distributed to each Authority. Consistent with that opinion the Monitoring Officer advises that the Leadership Board will make a decision on the following basis:

Governance Committee

- The decision must be made by the Leadership Board at a properly constituted meeting in accordance with the NECA Constitution;
- The decision is one which falls to be made by simple majority; and
- Decision makers must make a decision based only upon their Authority's genuine and reasonably held opinion.

9.3 The Chief Legal Officers of each of the seven local authorities have indicated that an extraordinary meeting may be held when a final draft Order and draft side agreement are available for decision. It is recognised that the meeting may need to be held during the Local Government Pre-election Period and seven Chief Legal Officers have indicated that restrictions applicable during the pre-election period should not prevent the consent decision being made.

10. Key Risks

10.1 Maintaining operational performance and outcomes for the benefit of the area covered by the seven local authorities throughout any transition process.

11. Equality and Diversity

11.1 None

12. Crime and Disorder

12.1 None

13. Consultation/Engagement

13.1 The draft Order has been discussed with Chief Legal Officers and the matter of devolution and the proposed amendments of the NECA boundary have been discussed with Leaders and at the Leadership Board, as well as at various committees of NECA for a number of months.

14. Other Impact of the Proposals

14.1 None

15. Appendices

15.1 None

Governance Committee

16. Background Papers

16.1 None

17. Contact Officers

17.1 Peter Judge, Monitoring Officer, peter.judge@northeastca.gov.uk, 0191 338 7455

18. Sign off

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

19. Glossary

2009 Act – Local Democracy, Economic Development and Construction Act.

LA7 or seven Constituent Authorities - the Authorities for the Local Government areas of Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland.

Leading Counsel, Jonathan Moffatt QC, 11 Kings Bench Walk, London

NECA Order – the Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Order 2014 (SI 2014 No. 1012)

NECA Deed of Operation – Deed of Operation dated 15 June 2015

North of Tyne Authorities – The Authorities for the Local Government areas of Newcastle upon Tyne, North Tyneside and Northumberland.

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North East Combined Authority

Governance Committee

Date: 3 April 2018

Subject: Accounting Policies for 2017/18 Accounts and Code of Practice Update

Report of: Chief Finance Officer

Executive Summary

This report updates Governance Committee on the Authority's Accounting Policies to be applied in the preparation of the Statement of Accounts for 2017/18, and an update on changes to accounting and reporting standards and guidance which may have an impact on the Authority's accounts this year and in future years.

Recommendations

Governance Committee is recommended to review the Accounting Policies presented with this report and approve their use in the preparation of the 2017/18 Statement of Accounts.

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1 Background Information

- 1.1 The purpose of this report is to update Governance Committee on the Authority's accounting policies to be applied in the preparation of the Statement of Accounts for 2017/18 and to seek confirmation from the Governance Committee that appropriate policies are being applied.
- 1.2 This report also provides an update on changes to the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA) ("the Code") and any other changes to UK accounting and reporting standards which may have an impact on NECA's accounts for the year ending 31 March 2018.
- 1.3 A schedule summarising which policies have changed since 2016/17 is set out in Appendix 1. The full draft accounting policies are attached as Appendix 2.

2 Proposals

2.1 Accounting Policies Update

For 2017/18 there are no significant changes being applied to the Accounting Policies, and only minor amendments for clarity.

Under "Accruals of Income and Expenditure" the de-minimus level for accruals of income and expenditure had been specified for clarity in the 2016/17 Accounting Policies. This was set at £1,000 with the threshold to be kept under review for 2017/18 and future years' accounts. No change is proposed for 2017/18.

The policy covering "Leases" was removed in 2016/17. The Authority is not party to any lease arrangements so this is not relevant.

Appendix 1 summarises changes to the Accounting Policies for 2017/18 and the policies are set out in full in Appendix 2.

2.2 Faster Close Update

- 2.2.1 Details of the updated Accounts and Audit Regulations 2015 were presented to the Committee at its meeting in April 2016. The main change that would have an impact on NECA's accounts is that from 2017/18 the draft accounts must be prepared and signed off by 31 May (currently 30 June) and the audit completed and final accounts signed off by 31 July (currently 30 September).

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2.3 Code of Practice Changes 2017/18

2.3.1 There are no significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2017/18. Minor changes to the code include:

- Introduction of key reporting principles for the preparation and publication of the Narrative Report; and
- Clarification of reporting requirements on accounting policies and going concern.

None of the above are anticipated to have a significant impact on NECA

2.4 Highways Network Asset Update

2.4.1 As highlighted in previous reports to the Committee, from 2017/18 the Highways Network Asset Code was to be implemented into the Financial Reporting Requirements of Local Authorities. This would have required a change in the basis of valuation of the Tyne Tunnels, NECA's most significant Property, Plant and Equipment assets, to Depreciated Replacement Cost rather than Depreciated Historic Cost.

2.4.2 However at a meeting in March 2017, the CIPFA/Local Authority (Scotland) Accounts Advisory Committee Code Board¹ (CIPFA/LASAAC) decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

2.4.3 The Tyne Tunnels assets will therefore continue to be valued at Depreciated Historic Costs as per the current requirements.

3 Next Steps

3.1 The agreed accounting policies will be applied in the production of the Statement of Accounts 2017/18, which will be presented to Governance Committee in draft form in May 2018 and in audited form on July 30th 2018 for recommendation to the Leadership Board on the 31st July 2018.

¹ CIPFA/LASAAC Local Authority Accounting Code Board is responsible for the development of the Code of Practice on Local Authority Accounting in the United Kingdom which specifies the financial reporting requirements for local authorities.

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4 Potential Impact on Objectives

4.1 This report has no specific impact on Objectives.

5 Financial and Other Resources Implications

5.1 The report considers the Accounting Policies for the Authority's Statement of Accounts for 2017/18.

6 Legal Implications

6.1 There are no legal implications directly arising from this report. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

7 Key Risks

7.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices. Faster Close is a key change to the Code of Practice, requiring authorities to close their final accounts by May 31st, in order to achieve this deadline require related parties, in particular Sunderland City Council (North East LEP) and Nexus to provide their accounts in good time for inclusion in NECA Group Accounts.

7.2 Nexus have committed to provide draft accounts by 4th May 2018. Early work with Sunderland in relation to reconciliation of balances has already taken place in February and will be ongoing. Additional accounting capacity has been arranged to help achieve the faster close timetable.

8 Equalities and Diversity

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

9 Crime and Disorder

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

10 Consultation/Community Engagement

There are no community engagement implications arising from this report.

12 Other Impact of the Proposals

This report is for review and information only.

13 Appendices

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- 13.1 Appendix 1 – Summary of changes to Accounting Policies 2017/18
Appendix 2 – North East Combined Authority Accounting Policies 2017/18

14 Background Documents

- 14.1 Code of Practice on Local Authority Accounting 2017/18

15 Contact Officers

- 15.1 Katherine Laing, Principal Accountant NECA,
katherine.laing@northeastca.gov.uk, 0191 3387428

16 Sign off

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

North East Combined Authority

Governance Committee

APPENDIX 1

Summary of changes to Accounting Policies 2017/18

Accounting Policy	New policy	Amended policy	Policy Removed	No change	In line with Code
1. General Principles				✓	✓
2. Accruals of Income and Expenditure				✓	✓
3. Cash and Cash Equivalents				✓	✓
4. Exceptional Items				✓	✓
5. Prior Period Adjustments, changes in Accounting Policies and Estimates, and Errors				✓	✓
6. Charges to Revenue for Non-Current Assets				✓	✓
7. Employee Benefits				✓	✓
8. Pensions				✓	✓
9. Events after the Reporting Period				✓	✓
10. Fair Value Measurement				✓	✓
11. Financial Instruments				✓	✓
12. Government Grants and Contributions				✓	✓
13. Property, Plant and Equipment				✓	✓
14. Public Private Partnership (PPP) Contracts				✓	✓
15. Provisions				✓	✓
16. Contingent Liabilities				✓	✓
17. Reserves				✓	✓
18. Revenue Expenditure Funded from Capital Under Statute				✓	✓
19. VAT				✓	✓
20. Overheads				✓	✓
21. Tyne Tunnels Income				✓	✓
22. Group Accounts				✓	✓
Leases			✓		✓

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APPENDIX 2

North East Combined Authority Accounting Policies 2017/18

1. General Principles

The Statement of Accounts summarises the North East Combined Authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, 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 2017/18, supported by International Financial Reporting Standards (IFRS).

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

The Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the Authority will continue in operational existence for the foreseeable future.

2. Accruals of Income and 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. Accruals are raised for income and expenditure exceeding £1,000.

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 less than ninety days 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

Where items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and

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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

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Authority is not required to raise the levy to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Due to the small number of employees the Authority has, 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 is immaterial and therefore an accrual will not be made. This will be reviewed each year to ensure it is still an appropriate treatment.

Termination Benefits

Termination benefits are amounts which would be payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

No such amounts are payable in 2017/18.

8. Pensions

NECA is a member of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

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 Local Government Pension Scheme is accounted for as a defined benefits scheme:

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- The liabilities of the pension fund attributable to the Authority 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 and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.
- 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.
 - Property at market value.

The change in the net pension's liability is analysed into the following 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) Net interest on the net defined liability, i.e. net interest expense for the Authority, the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefits.
- d) Remeasurements comprising:
 - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - Actuarial gains and losses, changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their

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assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- e) 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.

9. Events After the Reporting Period

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 of the date of authorisation for issue are not reflected in the Statement of Accounts.

10. Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or

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b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

11. 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.

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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.
- 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

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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.
- 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).

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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).

12. Government Grants and Contributions

Government grants and third party contributions and donations are recognised as due to the Authority (whether they are paid on account, by instalment or in arrears) 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 and capital grants used to fund Revenue Expenditure Financed from Capital Under Statute) 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.

13. Property, Plant and 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.

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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 – current 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.

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Assets included in the Balance Sheet at current 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. The work is carried out on behalf of the Authority by the Property Services Division of Newcastle City Council. 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 as follows:

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

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

De Minimis Levels

The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimis level are charged to the revenue account and are not classified as capital expenditure, i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established de-minimis level. For all capital expenditure the de-minimis level is £10,000.

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

- 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.

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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 assets that are not yet available for use (i.e. assets under construction). Depreciation on all Property, Plant and Equipment assets is calculated by taking the asset value at 31 March 2017, divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment assets 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, although Mechanical and Electrical Services and the Toll Plaza 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.

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:

North East Combined Authority

Governance Committee

- The public sector entity ('grantor') controls or regulates the services that the operator must 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 is considered to meet both of the IFRIC 12 criteria, and NECA therefore recognises the costs 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 IAS17. 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 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating the new tunnel and the existing tunnel. NECA may therefore have no long term obligation to transfer economic resources to TT2 Ltd., 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 NECA 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 NECA. If NECA varies a Real Toll from its corresponding Formula Toll beyond a certain level, the Operator is compensated for the effect of this adjustment on demand.

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

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

In relation to such an arrangement, the Code and the accompanying guidance 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.

North East Combined Authority

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NECA has therefore recognised a deferred credit balance, added to as each of Phase 1 and Phase 2 were 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

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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 reversed 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 and 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 NECA 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 different areas of NECA activity (e.g. Transport, Economic Development, Corporate) in accordance with estimated work done on each area.

21. Tyne Tunnels 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.

22. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 to produce Group Accounts to include services provided to Council Tax payers in the North East 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 Combined 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 on the basis of a full consolidation of the financial transactions and balances of NECA and Nexus. Nexus has been

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incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

For the 2017/18 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for the 2017/18 accounts and comparators for 2016/17. 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.

North East Combined Authority

Governance Committee

Date: 3 April 2018

Subject: External Audit Progress Update – Audit Strategy Memorandum

Report of: External Auditor

Executive Summary

This report presents the Audit Strategy Memorandum of the External Auditors to NECA, Mazars. This sets out the audit plan in respect of the audit of NECA for the year ending 31 March 2018.

Recommendations

Governance Committee is recommended to consider and comment on the report of the External Auditor which is attached as Appendix 1.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 This report presents the report of the External Auditor, Mazars, which is attached as appendix 1.

2 Proposals

- 2.1 The Audit Strategy Memorandum report attached at Appendix 1 sets out the audit plan in respect of the audit of NECA for the year ending 31 March 2018 and forms the basis for discussion at the Governance Committee on 3 April 2018.

3 Next Steps

- 3.1 The audit of the NECA accounts will take place during June and July 2018, after which the external auditor will report their findings to the Governance Committee.

4 Potential Impact on Objectives

- 4.1 This report has no specific impact on Objectives.

5 Finance and Other Resources

- 5.1 There are no finance or resource implications arising from this report. The audit fee for the year is set out in the report, and provision was made in the 2017/18 budget for this.

6 Legal

- 6.1 The Accounts and Audit (England) Regulations 2015 set out the responsibilities of bodies such as NECA in relation to the production of statutory accounts and their audit. Under the NECA Constitution, it is the responsibility of Governance Committee to review key information relating to the NECA's Statement of Accounts, but the approval of the Accounts is a responsibility for the Leadership Board.

7 Other Considerations

7.1 Consultation/Community Engagement

There are no community engagement implications arising from this report.

7.2 Human Rights

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

7.3 Equalities and Diversity

North East Combined Authority

Governance Committee

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

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

8 Background Documents

8.1 None

9 Links to the Local Transport Plans

9.1 There are no links to plans in the policy framework

10 Appendices

10.1 Appendix 1 – Audit Strategy Memorandum

11 Contact Officers

11.1 Katherine Laing, Principal Accountant NECA,
katherine.laing@northeastca.gov.uk, 0191 3387428

12 Sign off

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

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Audit Strategy Memorandum

North East Combined Authority

Year ending 31 March 2018





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to North East Combined Authority. It has been prepared for the sole use of the North East Leadership Board as those charged with governance by the North East Leadership Board. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Members of the Governance Committee
North East Combined Authority
Quadrant
Cobalt Business Park
The Silverlink North
North Tyneside
NE27 0BY

12 March 2018

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2018

We are pleased to present our Audit Strategy Memorandum for the North East Combined Authority (NECA) for the year ending 31 March 2018.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing NECA which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0781 375 2053.

Yours faithfully

{_{es_}:signer1:signature }

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of North East Combined Authority (NECA) for the year to 31 March 2018. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: www.psa.co.uk/audit-quality/terms-of-appointment/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of NECA for the year.

Reporting to the NAO

We report to the NAO on the consistency of NECA's financial statements with its Whole of Government Accounts (WGA) submission.

Value for Money

We are required to conclude whether NECA has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of NECA and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or the North East Leadership Board, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

NECA is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM



- Cameron Waddell, Partner
- cameron.Waddell@mazars.co.uk
- 0781 375 2053



- Jim Dafter, Senior Manager
- Jim.dafter@mazars.co.uk
- 07815 876 042



- Elaine Hall, Assistant Manager
- Elaine.hall@mazars.co.uk
- 07881 283 350

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

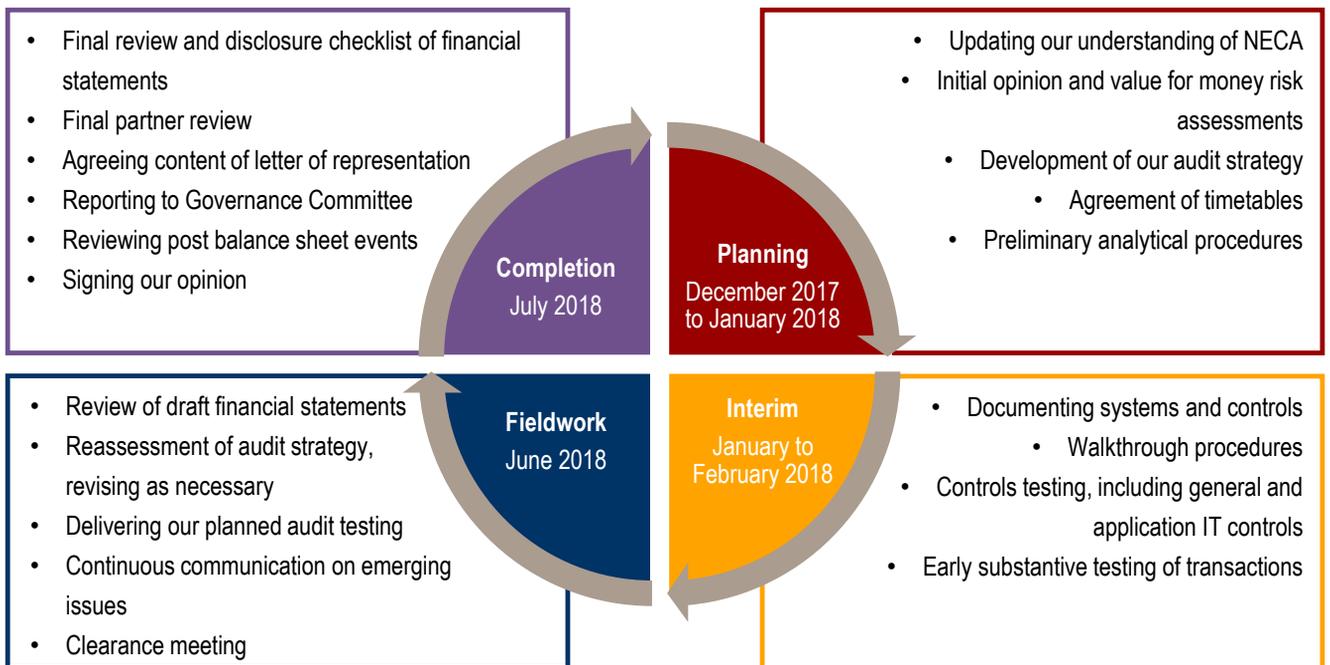
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing NECA's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures (relevant to Group accounts only)	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Fair values	Arlingclose	NAO

Service organisations

International Auditing Standards define service organisations as third party organisations that provide services to NECA that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by NECA and our planned audit approach.

Items of account	Service organisation	Audit approach
All areas	Newcastle City Council	Review NECA's controls over: <ul style="list-style-type: none"> the information provided to the service organisation; and the outputs provided by the service organisation to NECA.

Reporting deadlines

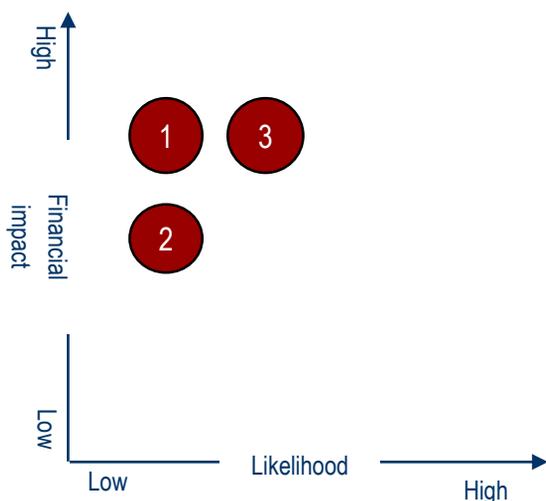
As we have previously discussed with the Governance Committee, the statutory timetable for the production and audit of NECA's financial statements changes for 2017/18. NECA is now required to produce accounts by 31 May 2018 (1 month earlier) and to publish audited accounts by 31 July 2018 (2 months earlier). We have worked closely with officers ahead of this earlier deadline to help ensure appropriate arrangements are in place, including agreeing an earlier timetable.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.
- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant risks. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Revenue recognition
3	Defined benefit liability valuation

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Governance Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls (relevant to single entity and group accounts)</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk through performing audit work over:</p> <ul style="list-style-type: none"> • reviewing of material accounting estimates, which may be subject to management bias, included in the financial statements; • consideration and review of unusual or significant transactions outside the normal course of business; and • testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
2	<p>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)</p> <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> □ cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and □ grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met. 	<p>We plan to address the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"> • the design and implementation of controls management has in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they have been recognised in the right year; • the judgements made by management in determining when grant income is recognised; and • for major grant income, obtaining counterparty confirmation.
3	<p>Defined benefit liability valuation (relevant to group accounts only)</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We plan to address the defined benefit liability valuation risk through performing audit work over</p> <ul style="list-style-type: none"> • evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and • consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. <p>We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.</p>

5. VALUE FOR MONEY WORK

Our approach to value for money work

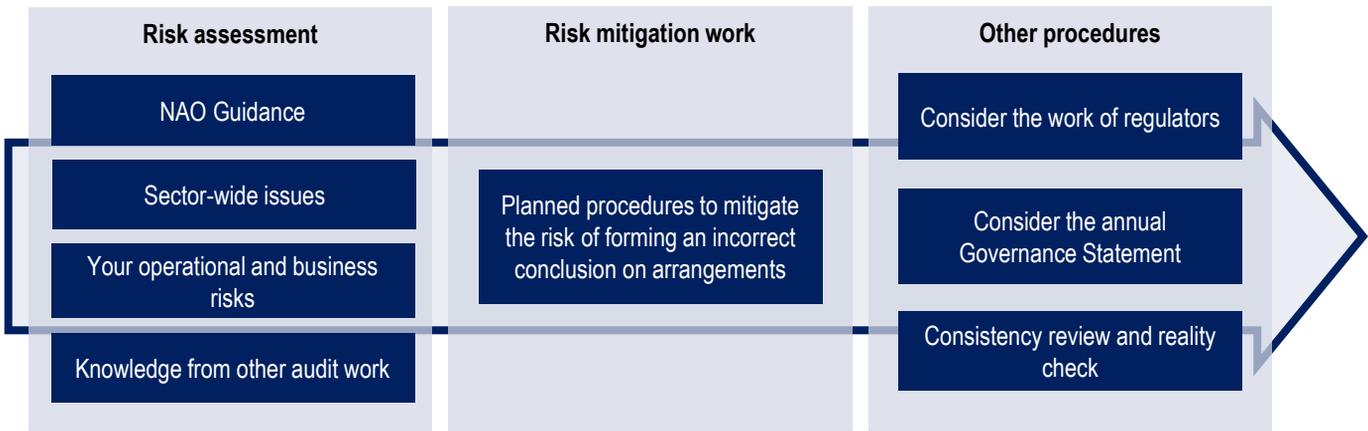
We are required to form a conclusion as to whether NECA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are provided set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake is provided below.



Significant value for money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at NECA being inadequate. As outlined above, we draw on our deep understanding of NECA and its partners, the local and national economy and wider knowledge of the public sector.

For the 2017/18 financial year, we have identified no significant risks in relation to our VFM work.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as NECA's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 27 April 2017.

Service	2016/17 fee	2017/18 fee
Code audit work	£24,298 plus VAT	£24,298 plus VAT

Fees for non-PSAA work

At this stage, there is no non-PSAA work we plan to carry out. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Services provided to other entities within NECA's group

The group consists of the NECA and Nexus. We are responsible for the direction, supervision and performance of the group audit. We are also the external auditor for Nexus.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Authority to confirm to you at least annually, in writing, that we comply with the Financial Reporting Authority's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

8. MATERIALITY AND MISSTATEMENTS

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Summary of initial materiality thresholds

Threshold	Initial threshold NECA	Initial threshold Group
Overall materiality	£4,007,000	£5,770,000
Specific materiality – related parties	10% of disclosed value	10% of disclosed value
Trivial threshold for errors to be reported to the Governance Committee	£120,000	£173,000

Materiality

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of Gross Revenue Expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Governance Committee.

We consider that Gross Revenue Expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of Gross Revenue Expenditure.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on our preliminary assessment of materiality we anticipate the overall materiality for the year ending 31 March 2018 to be in the region of £4.007 million (£4.007 million in the prior year) for NECA and £5.770 million (£5.770 million in the prior year) for the Group .

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £120k for NECA and £173k for Group based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2017/18

There are no significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2017/18. Minor changes to the Code include:

- introduction of key reporting principles for the preparation and publication of the Narrative Report; and
- clarification of reporting requirements on accounting policies and going concern.

None of the above are anticipated to have a significant impact on NECA.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 9 – Financial Instruments	2018/19	<p>The standard will replace IAS 39 and will introduce significant changes to the recognition and measurement of NECA's financial instruments, particularly its financial assets.</p> <p>Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that NECA will continue to measure the majority of its financial assets at amortised costs.</p> <p>For Authorities that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. At this stage it is unclear whether statutory provisions, over and above those already in place, will be put in place to mitigate the impact of these fair value movements on NECA's general fund balance.</p>
IFRS 16 – Leases	2019/20	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2019/20 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which NECA are party to.</p>

The 2018/19 Code will also apply the requirements of IFRS 15 Revenue from Contracts with Customers, but it is unlikely that this will have significant implications for most local authorities.

Governance Committee

Data: 3 April 2018

Subject: Draft Annual Governance Statement 2017/18

Report of: Audit, Risk and Insurance Service Manager

Executive Summary

This report presents the outcome of the annual review of the Authority's governance and internal control arrangements. The review highlighted one area which requires improvement around committee meetings being inquorate. This area for improvement will be disclosed within the 2017/18 Annual Governance Statement (AGS).

A copy of the draft Annual Governance Statement is provided at Appendix 1.

Recommendation

- I. It is recommended that the Committee agree the draft 2017/18 Annual Governance Statement narrative and consider the evidence provided to support its production
- II. Acknowledge the area requiring improvement (Appendix A of AGS)
- III. Acknowledge that the Statement will be subject to further review in July 2018, following the completion of the external audit of the accounts and before it is signed by the Head of Paid Service and Chair of the Combined Authority.

Governance Committee

1 Background Information

1.1 The Combined Authority has a statutory duty under the Accounts and Audit Regulations 2015 to do the following on an annual basis:

- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
- Prepare an annual governance statement; and
- Through a relevant committee review and approve the annual governance statement

1.2 The Local Audit and Accountability Act 2014 implemented changes to the timeframe for the production of the Statement of Accounts and Annual Governance Statement with effect from 1 April 2017. This has resulted in the time period for the production of this year's Governance Statement being reduced from 3 months to 2 months. The final accounts and AGS will be approved by the Leadership Board on 31 July 2018, therefore Governance Committee are requested to consider the draft 2017/18 Statement at today's meeting to ensure the deadlines are met.

2 2017/18 Annual Governance Statement

The approach to produce the 2017/18 Statement is based on a framework of assurance from a number of areas and in preparing it, it will be necessary to review evidence from the following sources. This approach complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice:

- Governance Arrangements e.g. the Authority's Constitution
- Statutory Officers - Completion of assurance statements
- Members - Views of Governance Committee
- Internal Audit Activity – including the Chief Audit Executive's (Audit, Risk and Insurance Service Manager) annual opinion
- Risk Management - Risk reviews
- Performance Management - Outcomes reported during 2017/18
- Views of the external auditor and other external inspectorates
- Key Partnerships - Completion of assurance statements

2.1 **Governance Arrangements** - The Combined Authority has in place a Constitution which was reviewed and approved by the Leadership Board at their annual meeting on 20 June 2017. The Constitution defines the roles and responsibilities of those charged with Governance within the Authority. This evidence and the information below provides assurance that governance arrangements have been defined.

2.2 **Statutory Officers** – The Monitoring Officer and Chief Finance Officer have provided signed assurance statements setting out the mechanisms they have in

Governance Committee

place and concluding that they can provide assurance that effective controls are in place. The Monitoring Officer as the Senior Information Risk Owner (SIRO), has also certified an appropriate assurance statement. The signed statements can be found at Appendix 2.

- 2.3 **Members** – The Governance Committee have reviewed evidence throughout 2017/18 relevant to the control and governance arrangements in place for the Combined Authority. This has included internal and external audit activity, financial records relevant to budgets and the accounts, risk management and other assurance information. Members can draw on this when giving a view of the effectiveness of control and governance arrangements in place.
- 2.4 **Internal Audit Activity** – The Internal Audit Service has undertaken audit work throughout the year based on the risk based audit plan. Based on this audit activity the overall opinion of the Audit, Risk and Insurance, Service Manager for the year will provide independent assurance and will be reported to the July Committee.
- 2.5 **Risk Management** – A risk management policy and strategy is in place and a strategic risk register has been developed, which monitors the most significant risks and opportunities to the Combined Authority. The risk register is elsewhere on this agenda and provides evidence that there is a sound process in place for managing strategic risks and opportunities within the Combined Authority.
- 2.6 **Performance Management** – Performance information from each theme is reported to the Leadership Board on a regular basis and has not identified any issues which would suggest a significant weakness in the control environment.
- 2.7 **External auditor** – The external auditor Mazars issued an unqualified opinion on the NECA 2016/17 accounts and an unqualified value for money opinion. An audit of the Authority's 2017/18 accounts will be undertaken and further assurance will be given at that point before the accounts are finalised.
- 2.8 **Key Partnerships** – There is a register of significant partnerships which has been used to identify those partnerships where the Authority needs assurance on their control environment to support its Annual Governance Statement. Based on evidence from the returned assurance statements, the partnerships have stated that they have an effective control environment in place with no weakness identified. A list of the significant partnerships are noted at Appendix 3.
- 2.9 Nexus is not included in the significant partnership register due to its status as an officer of the Combined Authority, however a separate assurance statement has been signed by their Director of Finance, which states Nexus have an effective control environment in place. A copy of the Statement can be found at Appendix 4.

Governance Committee

3. Outcomes of the Review of Assurances

- 3.1 The review highlighted no significant weakness in the internal control environment during 2017/18, although did identify one area requiring improvement. Appendix A to the AGS sets out the detail relating to NECA's Committee's quorum.

4. Proposals

- 4.1 The Committee are asked to review the draft 2017/18 Annual Governance Statement and the evidence provided to support its production. The Committee are also asked to acknowledge that the Statement will be subject to a further review in July 2018, following approval of the financial accounts and consideration by the Leadership Board.

5. Reason for the Proposals

- 5.1 Governance Committee's role is to provide an ongoing review, challenge and assurance role in relation to governance and internal control issues. The Committee therefore reviews the Annual Governance Statement process and supporting evidence before the Statement is approved and certified.

6. Next Steps and Timetable for Implementation

- 6.1 The final Annual Governance Statement will be considered once more by the Governance Committee in July 2018, before it is included in the 2017/18 Statement of Accounts. This is to consider any significant weaknesses should they arise before the 2017/18 accounts are audited and finalised.
- 6.2 The final Annual Governance Statement will then be signed by the Chair of the Combined Authority and the Head of Paid Service, before being published with the final accounts.

7. Potential Impact on Objectives

- 7.1 No direct impact on objectives.

8 Financial and Other Resources Implications

- 8.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council's Internal Audit Service under the SLA for 2017/18.

9. Legal Implications

- 9.1 No direct legal implications arising specially from this report.

10. Key Risks

- 10.1 Risk management will be considered as part of the production of the Annual Governance Statement. There are no specific risk implications directly arising from this report.

Governance Committee

11. Equalities and Diversity

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

12. Crime and Disorder

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

13. Consultation/Engagement

13.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer have consulted on the draft Statement.

14. Other Impact of the Proposals

14.1 The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

15. Appendices

15.1 Appendix 1 - Annual Governance Statement
Appendix 2 – Assurance Statements signed by Monitoring Officer/Senior Information Risk Owner/Chief Finance Officer
Appendix 3 – Partnership Assurance Statements
Appendix 4 – Nexus Assurance Statement

16. Background Papers

16.1 The Annual Governance Framework and completed Partnership Assurance Statements are available.

17. Contact Officers

17.1 Philip Slater, Audit, Risk and Insurance Service Manager
E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

18. Sign off

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

Annual Governance Statement 2017/18 (Draft)

Section 1	Scope of Responsibility
Section 2	The Purpose of the Governance Framework
Section 3	The Governance Framework
Section 4	Annual Review of Effectiveness of Governance Framework
Section 5	North of Tyne Devolution Proposals
Section 6	Significant Weaknesses in Governance and Internal Control
Section 7	Conclusion
Appendix A	Improvements needed to Governance and Internal Control

Section 1: Scope Of Responsibility

The seven local authorities of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland, as the already established North East Leadership Board came together in April 2014 to establish a Combined Authority for the area. Building on the track record of joint working, the Authority is an enabling body, which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth. It brings together the political leadership of the seven local authorities in the region to help co-ordinate strategic transport and economic planning for growth in the long term in a global context.

The Combined Authority works closely with the North East Local Enterprise Partnership, for which it is the accountable body, to deliver the objectives of the Combined Authority and the Strategic Economic Plan, which sets out our ambitious vision to strengthen the area's economy and provide more opportunities for businesses and communities.

We (the North East Combined Authority) are responsible for ensuring that our business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which we exercise our functions, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority's Leadership Board and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) for:

- (i) the governance of our affairs and

- (ii) facilitating the effective exercise of our functions, including arrangements for the management of risk

In relation to (ii) the Authority has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to:

- a) identify and prioritise the risks to the achievement of our, aims and objectives; and
- b) evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Combined Authority has developed a Risk Management Strategy and strategic risk register, which is reported to regular meetings of the Authority's Governance Committee. This information can be found under the Governance Committee on the Authority's web-site at: <http://www.northeastca.gov.uk/committee-meetings/governance-committee-background-information-papers>

Section 2: Purpose Of The Governance Framework

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, creating the conditions of economic growth and investment. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2018 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of Regulation 3 of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement, therefore in doing so complies with the principles of corporate governance set out in the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016.

Section 3: The Governance Framework

The core principals and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to achieve our objectives:

Focusing on our objectives and outcomes

1.1 We ensure that we are clear on delivering the objectives of the Combined Authority and intended outcomes of our Strategic Economic Plan, to create the best possible conditions for growth in jobs, investment and living standards, enabling residents to develop high-level skills so they can benefit long into the future.

1.2 We ensure we assess and review our vision and the implications for our governance

arrangements through the budget and performance management framework.

Members and officers have clearly defined roles and responsibilities

2.1 We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Leadership Board, Members and officers have been agreed by the Combined Authority.

We promote high standards of conduct and behaviour

3.1 We develop, communicate and embed codes of conduct set out in the Constitution, defining standards of behaviour for Members and Officers working on behalf of the Authority. Governance Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board. The Constitution is available on the NECA website. [NECA Constitution](#)

Transparent decision making subject to scrutiny and risk management

4.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals – these clearly define how decisions are taken and the processes and controls required to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our policy framework, ensuring that decision making is lawful and fair. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the interim Chief Finance Officer.

4.2 We ensure that our Governance Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2013.

4.3 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public. Administration of the Authority's policies on anti-fraud and corruption is undertaken by Internal Audit.

Developing the capacity of members and officers to be effective

5.1 We identify and aim to address the development needs of members and officers in relation to their strategic roles, and support these with appropriate training.

Engaging with local people and stakeholders

6.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

6.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.

We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by officers and Members of Governance Committee who provide independence and challenge. The outcomes of the review were circulated informally to Leadership Board and will be considered further by the Governance Committee.

The review is informed by

- (a) The views of our internal auditors, reported to Governance Committee through regular progress reports, and the Annual Internal Audit Opinion.
- (b) An annual review of the effectiveness of internal audit (as required by Public Sector Internal Audit Standards).
- (c) The views of our external auditors, reported to Governance Committee through regular progress reports, and the annual Internal Audit Opinion, adhering to the principles in CIFPA Statement 2010 on the role of the Head of Internal Audit.
- (d) The activities and operations of the themes (economic development and regeneration, employability & inclusion, and transport & digital connectivity) and significant partnerships through written assurance statements.
- (e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements.
- (f) The views of Members through the ongoing activities of Governance Committee (Governance Committee includes the activity of an Audit Committee and a Standards Committee, providing independent assurance on the effectiveness of the governance and internal control environment). And an Overview and Scrutiny Committee who review and scrutinise Leadership Board decisions as well as other Transport committee's decisions.
- (g) The Risk Management process, particularly the Strategic Risk Register.
- (h) Performance information which is reported to Leadership Board and other meetings on a regular basis.
- (i) The assurance framework that is in place to ensure Local Growth Fund monies are subject to appropriate levels of internal control and are focussed on the delivery of the Combined Authority's objectives and delivery of the Strategic Economic Plan.

Section 5: North of Tyne Devolution Proposals

The three North of Tyne Authorities (Newcastle, North Tyneside and Northumberland) have agreed to a 'minded-to' Devolution Deal with Government in November 2017. In order to implement this deal there is a requirement to establish a North of Tyne Mayoral Combined Authority, which requires the three Councils to withdraw from the existing NECA. A governance review was undertaken by the three authorities, which concluded that the creation of the proposed North of Tyne Mayoral Combined Authority would be likely to improve the exercise of statutory functions in relation to the area. Therefore, going forward the NECA Leadership Board will be required to consent to the three local authorities leaving the current NECA and to the creation of a governance model for joint arrangements for transport matters across the area of the seven authorities, before Government can lay the required Order to create the proposed North of Tyne Mayoral Combined Authority.

Section 6: Significant Weaknesses In Governance and Internal Control

The system of governance (including the system of internal control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, that value for money is being secured and that significant risks impacting on the achievement of our objectives have been mitigated.

The review highlighted no significant weaknesses in governance or internal control during 2017/18

Section 7: Conclusion

We consider the governance and internal control environment operating during 2017/18 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. There is however one area that requires improvement during 2018/19 as detailed in Appendix A.

Systems are in place to continually review and improve the governance and internal control environment. Mid-year checks are undertaken to provide assurance that improvements are being implemented and that the assessment is improving.

The annual review has shown that the arrangements for 2017/18 are in place and operating as planned.

We have been advised on the implications of the review by the Governance Committee and propose over the coming year to continue to improve our governance and internal control arrangements.

Head of Paid Service

Chair of the North East Combined Authority

Full Name: Helen Golightly

Full Name:

Signature:

Signature:

Date:

Date:

SECTION 6: IMPROVEMENTS NEEDED TO GOVERNANCE AND INTERNAL CONTROL

Governance and Internal Control Item	
<p><u>Committee Quorum</u></p> <p><u>Background/Risk</u> During 2017/18 a number of committees of the North East Combined Authority have had insufficient Members in attendance to be quorate. This position runs the risk that important decisions and committee business cannot be fulfilled or is delayed.</p> <p>The Monitoring Officer, with full support from Committee Chairs, has during the year contacted members of the Overview & Scrutiny and Governance Committees directly regarding non-attendance, which has resulted in improved attendance.</p> <p>Following the annual review of the NECA Constitution proposals to reduce the quorums of both Committees will be considered by Governance Committee before being presented to the Leadership Board at their Annual meeting in June 2018.</p> <p>Accountable Officer: Monitoring Officer</p>	
Action(s) required to enhance effectiveness	Implementation date
<p>Following the formal annual review of the Authority's Constitution, Governance Committee will be invited to endorse the proposed changes to the Constitution. This will include consideration being given to reduce the quorums of both Governance and Overview & Scrutiny Committees.</p>	<p>June 2018</p>

Monitoring Officer Assurance Statement for 2017/18

The Monitoring Officer is a statutory appointment under Section 5 of the Local Government and Housing Act 1989 and has a key role in ensuring the ethical governance of the Authority. The responsibilities of the Monitoring Officer are set out in part 3.6 (B) of the North East Combined Authority's Constitution.

Within the Authority the following processes have been in place during 2017/18 to provide the Interim Monitoring Officer with assurance on the Authority's governance arrangements:

- The NECA Constitution is in place and has been kept under review;
- Reports to the Leadership Board and other committees include a section on the legal implications of the report and the Monitoring Officer signs-off all reports in advance of each committee
- The Monitoring Offer attends meetings of Leadership Board, Overview and Scrutiny Committee and Governance Committee, Transport North East Committee and the Transport North East (Tyne and Wear) Sub Committee;
- A register of Members' interests (including gifts and hospitality) is maintained.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's governance are ***in place/~~not in place~~** and operating effectively.

Interim Monitoring Officer Signature:



Full Name (in capitals) **CHARLES ASTON-JONES**

Date: **15.3.18**

Senior Information Risk Owner Assurance Statement for 2017/18

The Senior Information Risk Owner's (SIRO) role is to support the implementation of international/government standards for information management and security in the Authority. The legislation to support this role is within the following:

- Data Handling Procedures in Government - 2008
- ISO/IEC 27001:2013 – International Standard for Information Security
- Government Connect (4.1) Code of Connection for IT Security
- General Data Protection Regulation (EU) 2016/679

The SIRO's responsibilities are listed below:

- Ultimately accountable for assurance of information security at the Authority
- Champions information security at a senior level
- Implementation of the new General Data Protection Regulations (GDPR)
- Provides this annual statement of the security of information assets for the Annual Governance Statement

For the North East Combined Authority (NECA), the officer holding the position of SIRO is the Interim Monitoring Officer for NECA.

Within the Authority the following processes have been in place during 2017/18 to provide the SIRO with assurance on Information Governance:

- Information security of the Authority's information is provided through the systems of control in the Authorities providing support in accordance with the standards as set out in Service Level Agreements
- A GDPR Project Board has been established which meets regularly and a Data Protection Officer has been appointed, which will prepare the Authority to meet the requirements of the new regulations in May 2018

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's information are ~~in place/not~~ **in-place** and operating effectively.

Senior Information Risk Owner Signature: .....

Full Name (in capitals): CHARLES PETER JUDGE

Date: 15.3.18.....

Chief Finance Officer Assurance Statement for 2017/18

Section 73 of the Local Government Act 1985 requires new authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Finance Officer to have responsibility for those arrangements.

In addition, CIPFA have produced a Statement on the Role of the Chief Finance Officer which sets out how the requirements of legislation and professional standards should be fulfilled by officers in the carrying out of their role.

For the North East Combined Authority an appointment has been made of interim Chief Finance Officer.

Within the Authority the following processes have been in place during 2017/18 to provide the Chief Finance Officer with assurance on financial affairs:

- Monitoring of all budgets by appropriate officers;
- Leadership Board received regular finance updates;
- Governance Committee review of budget reports;
- High level financial risk assessment set out in budget report;
- Annual budget sign-off process;
- Review of financial implications/risks within individual Leadership Board and other committee reports;
- Delivery of the Internal Audit Plan and specifically financial systems audit work.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's financial affairs are ***in place/~~not in place~~** and operating effectively.

Interim Chief Finance Officer Signature:



Full Name (Capitals)

PAUL VERNON WOODS

Date:

15/3/2018

Partnership Assurance Statement (PAS) 2017/18

(*) The responsible office for each partnership has been asked to sign a declaration as follows:

“I confirm that the above is a fair reflection of the governance, internal control and risk management arrangements in place during the period for the partnership and that governance and internal control systems are in place/not in place (delete as appropriate) and operating effectively”

	Partnership	Lead Organisation	PAS received	Effective controls are in place (*)	Comments – These points have been identified on the assurance statement although do not have significant impact for the AGS
1	<p>Association of Northern Transport Authorities</p> <p>(Working through Rail North to devolve decision making on rail services across the North of England)</p>	Nexus	Yes	Yes	<p>As this Partnership works through Rail North only one Statement has been completed which covers both Partnerships.</p> <p>From the 1st April 2018 this partnership and Rail North will become part of Transport for the North, therefore only 1 assurance statement will be completed to support production of the 2018/19 AGS.</p>
2	<p>North East Smart Ticketing Initiative (NESTI)</p> <p>The main aims of the NESTI Project are the introduction of a region-wide smart ticketing infrastructure on all public transport as well as the introduction of a single smart payment method accepted on all forms of public transport.</p>	Nexus	Yes	Yes	<p>The NESTI project is expected to conclude during 2018/19. Sign-off and close out will continue to be through the Association of North East Councils (ANEC)</p>
3	<p>North East Local Enterprise Partnership (NELEP)</p> <p>The enterprise partnership is a business-led, strategic partnership responsible for promoting and developing economic growth in the area.</p>	North East Local Enterprise Partnership	Yes	Yes	None
4	<p>Rail North Limited</p> <p>Working in partnership with the Department for</p>	Nexus	Yes	Yes	<p>The assurance for the Rail North Limited partnership is included within the Association of Northern</p>

	Transport to devolve decision-making on rail services across the North of England, grow the region's railway network and manage the new Northern and TransPennine franchises.				Transport Authorities statement as noted above.
5	TT2** To design, build, majority finance, and operate the new vehicle tunnel, carry out the full refurbishment of the existing vehicle tunnel, and operate all the Tyne Tunnels until 2037.	Newcastle City Council	Yes	Yes	None
6	Transport for the North To create a northern transport strategy in order to align transport investment in pursuit of building the northern powerhouse.	Newcastle City Council	Yes	Yes	Transport for the North (TfN) sought statutory status as a Sub National Transport Body which was confirmed on 22 January 2018, which means that TfN will become a statutory body in April 2018. As noted above the Association of Northern Transport Authorities (and Rail North) will become part of the statutory body TfN in April 2018.
7	East Coast Mainline Authorities The Consortium of East Coast Main Line Authorities represents Local Authorities and Scottish Regional Transport Partnerships throughout the area served by the East Coast Main Line.	Newcastle City Council	Yes	Yes	None

Notes

Nexus - Nexus is not included in the register due to its status as an officer of the Combined Authority rather than a partner. Partnership arrangements for Nexus are recorded separately to the arrangements for the North East Combined Authority. A signed statement is at Appendix 4.

TT2** - This is a Services Concession, which is a form of services contract rather than a partnership relationship in the strictest sense, but is included within the register for completeness due to the significance of the relationship.

NEXUS
Assurance Statement for 2017/18

Through the North East Combined Authority Order 2014 the Tyne and Wear ITA was abolished and its functions were passed to the North East Combined Authority (NECA). Under the Order while Nexus remained as a separate 'body corporate by statute' it also became an Executive body and an officer of NECA, supplanting the previous statutory arrangements with the ITA.

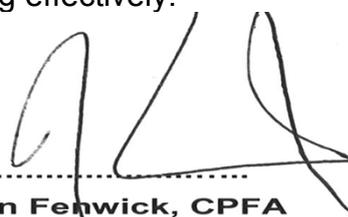
Nexus' reporting arrangements and accountability to the NECA are as follows:-

- Nexus' performance against the delivery of its Corporate Business Plan is reported on a regular basis to the Tyne and Wear Sub Committee (TWSC) of the Transport North East Committee (TNEC)
- Nexus' strategic risk register and its risk management arrangements are reported on a regular basis to the TWSC;
- Nexus reports its financial performance on a quarterly basis to the TNEC as part of the NECA Chief Finance Officer's composite monitoring reports for both revenue and capital expenditure;
- Nexus seeks authorisation for key decisions at the TWSC, TNEC and the North East Leadership Board (NELB), as appropriate; and
- Nexus officers attend both the NECA Governance and Overview and Scrutiny Committees as requested during the course of the year.

Within Nexus the following arrangements have been in place during 2017/18 which enables Nexus to provide further assurance on its governance arrangements:

- Weekly meetings of the Senior Leadership Team took place and were minuted, recording all delegated decisions taken in accordance with Nexus' Standing Orders and Financial Regulations;
- The 2017/18 Internal Audit Plan was kept under review by Nexus' Audit Committee which comprises three members who are independent of Nexus' executive arrangements;
- External Audit provided clean opinions on the 2016/17 statutory accounts (true and fair view and value for money conclusion);
- Effective partnership and contracting arrangements were in place;
- External scrutiny of the Metro Asset Renewal Plan delivery arrangements by the Department for Transport took place; and
- In addition, Nexus strengthened its governance in relation to DFT funded activities, following recommendations made in connection with two external validation exercises undertaken in 2016/17 in regards the management of the 'Metro Futures' and 'Metro Asset Renewal' programmes, where although positive assurance was obtained by the external validators, the need to establish a joint DFT/Nexus Partnership Board was accepted. There were 4 meetings of the board during 2017/18.

I confirm that based on this evidence the internal control, risk management and governance arrangements at Nexus are in place and operating effectively.



 John Fenwick, CPFA

Director of Finance & Resources Signature: **John Fenwick, CPFA**
Date: 7 March 2018

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Governance Committee

Date: 3 April 2018

Subject: Internal Audit Progress Report 2017/18 and Audit Plan 2018/19

Report Of: Audit, Risk and Insurance Service Manager

Executive Summary

The purpose of this report is to provide Members with:

- Progress against the delivery of the 2017/18 internal audit plan;
- Information on the implementation of audit recommendations: and
- Approve the 2018/19 internal audit plan

.

Recommendations

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

Governance Committee

1 Background Information

Progress against 2017/18 Audit Plan

- 1.1 Since the last committee 2 audits have been completed and reports are currently in draft and with management for comment.

Assignment	Level of Assurance
Human Resources	In draft
Treasury Management	In draft
Information Governance	Ongoing

The audit of information governance, and particularly the process being followed to prepare NECA for changes in Data Protection Regulations (known as GDPR) commenced, however it was agreed that Internal Audit time would be best used to provide support to the project board. This is ongoing and progress with the GDPR project is below.

Definitions for levels of assurance in reports are included in Appendix 1, and the 2017/18 Audit Plan including the status of each audit is at Appendix 2.

Implementation of Outstanding Recommendations

- 1.2 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high, medium and value for money recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The current position as regards outstanding recommendations is that 2 are outstanding (detailed below) but 1 will not be implemented until there is more certainty on NECA's governance arrangements.

	Audit and Recommendation	Lead Officer/ Implementation due date	Progress update
1	Major Projects		
1.1	The protocols referred to in the Constitution for the discharge of the transport, and economic development and regeneration functions should be developed and approved with the appropriate bodies. A timescale for developing and agreeing the	Head of Paid Service Original date 1 April 2016 Revised date Work will commence to develop these	.

Governance Committee

	protocols should be agreed and progress monitored against it. (medium)	protocols when there is greater certainty around the structure and future governance of NECA	
2	Procurement		
	An authorised signatory list should be established of all officers and their positions across the Combined Authority who are authorised to approve transactions at various limits relating to orders, payments, payroll, expenses, and income. Any officer directly engaging in a procurement exercise should be appropriately authorised as per the authorised signatory list.	Chief Finance Officer Original date 31 January 2018 Revised date 30 May 2018	

- 1.3 The current position as regards outstanding recommendations raised in 2015/16 to 2017/18 is detailed below:

	2015/16	2016/17	2017/18
Recommendations issued	10	6	5
Recommendations fully implemented	9 (90%)	6 (100%)	0 (0%)
Recommendations not yet due for implementation	0 (0%)	0 (0%)	4 (80%)
Recommendations not fully implemented and the target date for implementation has been exceeded	1 (10%)	0 (0%)	1 (20%)

Governance Committee

Proposed Audit Plan 2018/19

- 1.4 The proposed Internal Audit Plan aims to support the Combined Authority in developing, as well as giving the Governance Committee assurance on the effectiveness of controls in place. A draft plan is attached at Appendix 4.
- 1.5 The Internal Audit Plan reflects the current position of the Combined Authority and covers the following:
 - Advice and consultancy on the design, development and implementation of key business activities.
 - Review of newly established arrangements to ensure they operate as expected and efficiently.
 - Audit of key business areas supporting the organisation.
- 1.6 The plan has been prepared by the Audit, Risk and Insurance Service Manager based on a risk assessment of the Combined Authority and after considering the following:-
 - Review of the Strategic Risk Register, and risks identified in other documents such as committee reports
 - Consultations with:
 - Chief Finance Officer
 - Monitoring Officer
 - Governance Committee
 - Staff within the Internal Audit Service
 - Consideration of evidence for the 2017/18 Annual Governance Statement
 - Outcomes of audits undertaken in 2017/18
 - Known national developments and changes in legislation

GDPR Progress update

- 1.7 A project board is in place to ensure NECA is compliant with GDPR by the date it comes into effect across the EU of 25 May 2018. The board is chaired by the interim Monitoring Officer. Internal Audit is represented by the Audit, Risk and Insurance Service Manager who will also act as Data Protection Officer (DPO)
- 1.8 A series of workshops have been held to cover all functions of NECA which have included training and following these progress is being made to develop an information asset register detailing personal information held, the lawful purpose for which it is held, where it is shared etc.
- 1.9 In addition policies and frameworks are being reviewed to ensure they remain GDPR compliant.

Governance Committee

- 1.10 The work is in progress to have NECA compliant with GDPR by 25 May 2018. Training will be provided to Members as part of the Members training workshops to be held in May/June 2018.

2 Proposals

- 2.1 The Governance Committee are asked to note the internal audit activity during 2017/18 and agree the 2018/19 audit plan.

3 Reasons for the Proposals

- 3.1 Governance Committee continue to fulfil an ongoing review, challenge and assurance role in relation to governance and internal control issues.

4 Next Steps and Timetable for Implementation

- 4.1 The 2017/18 audit work continues and opinions will feed into the final Annual Governance Statement for 2017/18 which will be reported to Committee in July 2018.

5 Potential Impact on Objectives

- 5.1 No direct impact on objectives.

6 Finance and Other Resources Implications

- 6.1 Internal Audit is provided principally by Newcastle City Council and an SLA has been developed to cover this as well as risk management and preparation of the Annual Governance Statement.

7 Legal Implications

- 7.1 No direct legal implications arising specifically from the report.

8 Key Risks

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

9 Equality and Diversity

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

10 Crime and Disorder

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

Governance Committee

11 Consultation/ Engagement

- 11.1 The Head of Paid Service, Monitoring Officer, Chief Finance Officer and Chair of the Governance Committee have consulted on the internal audit activity.

12 Other Impact of the Proposals

- 12.1 The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

13 Appendices

- 13.1 Appendix 1 - Definitions
Appendix 2 – 2017/18 Internal Audit Plan
Appendix 3 – 2018/19 Internal Audit Plan

14 Background Papers

- 14.1 Final Internal Audit Reports

15 Contact Officers

- 15.1 Philip Slater, Audit, Risk and Insurance Service Manager
E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

16 Sign off

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

Governance Committee

Appendix 1 - Definitions

Overall Opinion

Full Assurance

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

Substantial Assurance

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

Moderate Assurance

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

Limited Assurance

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

No Assurance

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

Findings and Recommendations

High

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

Medium

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

Low

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

Governance Committee

Internal Audit Plan		Appendix 2	
2017/18 Audits	Audit scope and coverage	Status/ Assessment	Governance Committee
Treasury Management	To assess the adequacy and effectiveness of treasury management arrangements, i.e. monitoring cash flows and investment / borrowing activity.	Complete	July 2018
Human Resources Arrangements	To review human resources arrangements for the Combined Authority including policies, recruitment, training and arrangements for the engagement of agency/contractors staff.	Complete	July 2018
Information Governance and Freedom of Information	To review arrangements in relation to information governance particularly to consider the Combined Authority's preparations for changes in Data Protection regulations coming in May 2018.	Ongoing	N/A
Procurement	To consider procurement arrangements for all NECA activity and compliance with Financial Regulations to ensure these provide NECA with value for money and adequate assurance.	Complete	December 2017
Repayment of LEP Loans from the North East Investment Fund	This audit is scheduled towards the end of the year and will consider loans and control loans and repayment arrangements.	To Start	July 2018
Contingency	Provision to cover emerging risks, fraud investigation and general advice.	As required	
LGF and LTP Grant Certifications	2 separate grant audits were undertaken using time allocated from the contingency	Complete	December 2017
LGF Quarterly Monitoring returns	To provide assurance to the Chief Finance Officer on returns produced by the NELEP	To Start	July 2018
Governance Committee Support	<ul style="list-style-type: none"> Development and monitor delivery of the Internal Audit Annual Plan. Preparation of reports to and attendance at Governance Committee. Follow up on the implementation of recommendations. Assurance Mapping 	As required	

Governance Committee

Appendix 3 – 2018/19 Audit Plan		
Audits	Audit scope and coverage	Days
Pedestrian and Cycle Tunnels	The project to refurbish the tunnels is scheduled for completion in 2018 and this audit will consider the various stages of the project, including contract arrangements, to determine if controls operated effectively and whether there is opportunity to learn lessons from the work.	10
Implementation of the Local Growth Fund Programme.	The audit will review arrangements and controls in operation for the local growth fund in relation to finance and monitoring progress with activities funded through the programme.	5
Budget Setting and Monitoring Arrangements	To review the effectiveness of budgetary control within NECA.	5
Tyne Tunnel Income	To ensure income is collected securely and properly accounted for within contractual arrangements	5
Contingency	Provision to cover emerging risks, fraud investigation and general advice.	5
Governance Committee Support	<ul style="list-style-type: none"> • Development and monitoring delivery of the Internal Audit Annual Plan. • Preparation of reports to and attendance at Governance Committee. • Follow up on the implementation of recommendations made within Internal Audit reports. • Provide training for Members • Assurance Mapping 	5
Total		35

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Governance Committee

Date: 3 April 2018

Subject: Strategic Risk and Opportunities Register

Report Of: Audit, Risk and Insurance Service Manager

Executive Summary

The purpose of this report is to provide members with an update of the Strategic Risks and Opportunities for the North East Combined Authority.

Recommendations

Governance Committee are asked to review the outcome of the strategic risk review, as well as highlight any additional strategic risks that may need to be considered for inclusion in the risk register.

Governance Committee

1 Background Information

- 1.1 The risks continue to be closely monitored and reflect the decision by the three North of Tyne Authorities (Newcastle, North Tyneside and Northumberland) agreeing to a 'minded-to' devolution deal with Government in November 2017. To implement the proposal there is a requirement to establish a Mayoral Combined Authority for the North of Tyne. Assuming NECA Leadership Board consent to the three local authorities leaving the current NECA, an order by the Secretary of State will be required for the creation of a governance model for joint arrangements for transport matters across all seven authorities will be established.
- 1.2 Appendices A and B provide the Committee with details of each risk. Appendix C provides details of the North East Local Enterprise Partnership risks as requested by the Committee for this meeting. The Toolkit at Appendix D is used to determine the risk priority for NECA risks.
- 1.3 The strategic risk register only contains high level risks covering the overall Authority. Specific risks relating to themes within the Strategic Economic Plan, continue to be monitored within the themes. Nexus continues to report risks to the Transport North East (Tyne and Wear) Sub Committee. A link to the latest report is included at Section 14 - Background documents.

2. Proposals

- 2.1 The Combined Authority will continue to develop the strategic risk register to record, monitor and report the strategic risks to the Governance Committee at 3 monthly intervals, utilising support from officers.

3. Reason for the Proposals

- 3.1 Governance Committee continue to fulfil an ongoing review and assurance role in relation to governance and internal control issues.

4. Next Steps and Timetable for Implementation

- 4.1 The risk register will be closely monitored to ensure the mitigation plans and next steps are delivered.

5. Potential Impact on Objectives

- 5.1 The development of the strategic risk register will not impact directly on the objectives of the Authority's policies and priorities, however the approach to strategic risk management will support delivery of aims and ambitions by acknowledging the biggest threats and putting plans in place to manage them.

6. Finance and Other Resources Implications

Governance Committee

There are no direct financial implications arising from this report. Risk Management work is supplied to NECA through a Service Level Agreement with Newcastle City Council.

7. Legal Implications

There are no direct legal implications arising specifically from this report.

8. Key Risks

There are no direct risk management implications from this report. The approach to risk management is documented within the agreed policy and strategy.

9. Equalities and Diversity

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

10. Crime and Disorder

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

11. Consultation /Engagement

The Head of Paid Service, Monitoring Officer and Chief Finance Officer have consulted on the Strategic Risk Register.

12. Other Impact of the Proposals

The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

13. Appendices

Appendix A – ‘Risk at a glance’ shows live risks, risk priority and direction of travel for NECA risks

Appendix B – Provides a detailed assessment of the NECA strategic risks and future activity to reduce the overall risk exposure

Appendix C – Provides a detailed assessment of the North East Local Enterprise Partnership strategic risks and future activity to reduce the overall risk exposure

Appendix D – Risk Analysis Toolkit determines the risk priority for NECA risks.

14. Background Documents

[Nexus risks can be found on the NECA website as part of the – Transport North East \(Tyne and Wear\) Sub-Committee](#) Page 49

The North East Local Enterprise Partnership risk register is also available at <https://www.nelep.co.uk/wp-content/uploads/2018/03/lep-risk-register-march-2018.pdf>

Governance Committee

15. Contact Officers

Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council.
Philip.slater@newcastle.gov.uk.
Telephone - 0191 2116511

16. Sign off

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

Governance Committee

Appendix A

NECA risks at a glance		
Risk Title & Description	Risk Priority	Direction of Travel
Live Risks		
Effectiveness The future effectiveness of the North East Combined Authority (NECA) may be adversely impacted if a North of Tyne Mayoral Combined Authority is created.	Red 12	Static
European Funding 2014-2020 Failure of the North East LEP area to secure the notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.	Amber 9	Static
Operational Capacity and Resourcing The Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.	Red 12	Static

Governance Committee

North East Combined Authority – Risk Management

Appendix B

<p><u>Effectiveness</u></p> <p>The future effectiveness of the North East Combined Authority (NECA) may be adversely impacted if a North of Tyne Mayoral Combined Authority is created.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact - Critical</p>
<p>Cause: The North East Combined Authority’s decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal has resulted in the North of Tyne Authorities agreeing a ‘minded to’ North of Tyne area deal in November 2017.</p>	
<p>Impact/Consequence: The North East Combined Authority will need to adjust to operate with a reduced local authorities’ membership and changes to its boundaries if the North of Tyne Mayoral Combined Authority proceeds.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The Constitution covers the current operating model and will be reviewed to reflect the revised operating model • The Order provides for the existence of the NECA and specifies its current membership and functions • Formal decision-making committees including NECA Leadership Board, Transport North East, and the Tyne and Wear Transport Sub Committee • The LA7 continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Economic Directors, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees • The Strategic Economic Plan (SEP) has been refreshed by the North East LEP to ensure the economic priorities remain current, reflecting the region’s economic position • All seven local authorities continue to support the North East LEP and the SEP • A Strategic Partnership Register has been agreed which identifies all partnerships that are entirely or substantially responsible for delivering or managing an outcome for the Combined Authority • The appointment of the Commission for Health and Social Care integration for the North East. Set up by the NHS and NECA to identify opportunities for further collaboration and integration to improve the health and wellbeing of residents and reduce health inequalities across the North East 	
<u>Next Steps</u>	<u>Lead Officer(s)</u>
Identify and address the potential impacts an alternative devolution deal would have on the current governance and working arrangements of NECA.	Helen Golightly (Head of Paid Service)
Understand the legal and decision-making process associated with the potential changes to NECA, associated with the creation of a North of the Tyne Mayoral Combined Authority.	Helen Golightly (Head of Paid Service)

Governance Committee

<p><u>European Funding 2014-2020</u></p> <p>Failure of the North East LEP area to secure the notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.</p>	<p><u>Risk Owner</u> Head of Paid Service</p> <p><u>Risk Score</u></p> <p>Amber 9</p> <p>Likelihood - Medium Impact – Significant</p>
<p>Cause: ESIF Programme implementation was delayed whilst the impact of the EU Referendum was reviewed by Government departments, leading to underperformance against profiled commitment/spend for some parts of the programme. The UK Shared Prosperity Fund is likely to replace the ESIF Programmes, however there is little detail on how this fund will operate and how much will be available, therefore the future funding opportunities are uncertain at this time.</p>	
<p>Impact/Consequence: The ability to secure the North East LEP area’s full quota of European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • Government has given assurances that projects that are contracted before the Brexit deadline of March 2019 will be honoured. This is on the understanding that these projects will meet additional value for money criteria set out by Government • The North East Combined Authority and the North East LEP have secured £58.5m of JEREMIE 2 grant funding (part of the European Regional Development Fund) and a Special Purpose Vehicle has been established to deliver funding for projects, supporting small and medium sized enterprises • The North East LEP have set up a number of partnership working groups to develop local content to feed into project calls to ensure the funding is appropriately focussed on local need • The North East Technical Assistance project, led by Northumberland County Council and consisting of the LEP and local authority partners; are supporting local partners with their ESIF applications to maximise access to the funding available • The Strategic Economic Plan has been refreshed to ensure its priorities remain current. The Plan is aligned to a European Structural and Investment Fund Strategy, to direct the allocation of European Funding 2014-2020 to grow the North-East Economy 	
<p><u>Next Steps</u></p> <p>The North East LEP and other local partners are working with the Managing Authorities (DHCLG, DWP and Defra) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of £560m Euros. This is in line with the parameters now set by Government and the ability to secure ESIF for projects whilst the UK is in the EU, and some projects to spend after leaving the EU.</p>	<p><u>Lead Officer(s)</u></p> <p>Heather Heward (North East LEP) Programme Manager</p>

Governance Committee

<p><u>Operational Capacity and Resourcing</u></p> <p>The North East Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact - Critical</p>
<p>Cause: The uncertainty following the withdrawal of the devolution deal has impacted on:</p> <ul style="list-style-type: none"> • The Authority's commitment to secure permanent senior staff and secondment opportunities, resulting in key officer disciplines and resource requirements being at risk • The North of Tyne proposal may result in current officer resources being further reduced 	
<p>Impact/Consequence: Without permanent Statutory Officers and recruitment into other officer positions, the Authority will be unable to improve its effectiveness whilst carrying out its statutory responsibilities and core activities.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The appointment of the North East LEP's Executive Director to also undertake the position of Head of Paid Service has further strengthened the partnership arrangements between the North East LEP and the North East Combined Authority • A dedicated Monitoring Officer has been appointed for 3 days a week on a fixed 12-month contract. A contract with the Chief Finance Officer is in place. Neither appointment should be affected by a separate North of Tyne Devolution Deal. • Partners continue to engage through the formal meetings of the Combined Authority and LA7, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels • Economic Directors Group have put in place a programme of work, looking at the impact of Brexit on the economy, Local Authority finances and the region more widely • The Leadership Board has agreed a budget for 2018/19 • As part of the budget process Chief Executives and the Head of Paid Service identified the risks relating to capacity and political commitment 	
<p><u>Next Steps</u></p>	<p><u>Lead Officer(s)</u></p>
<p>Develop a plan to address the capacity and resourcing risks within the Combined Authority. In the event of a North of Tyne Mayoral Combined Authority being created, the operational capacity and resource risks will also be considered.</p>	<p>Helen Golightly (Head of Paid Service) Paul Woods (Chief Finance Officer)</p>
<p>An exercise is currently underway to review and strengthen NECA's Service Level Agreements (SLAs) to ensure key officer disciplines are formally recognised and continue to support Statutory Officers and the Leadership Board.</p>	<p>Peter Judge (Monitoring Officer)</p>

Governance Committee

Appendix C

North East Local Enterprise Partnership - Risk Management

<p><u>Operational Capacity and Resourcing</u></p> <p>Medium term operational budget may not be sufficient to maintain the current capacity within the team to lead the delivery of the Strategic Economic Plan (SEP).</p>	<p><u>Risk Owner</u> Executive Director</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low Impact – Critical</p>
<p>Cause: Some funding sources relating to staff resourcing are time-limited and core operational budget levels are not sufficient to allow the Local Enterprise Partnership (LEP) to maintain current capacity levels.</p>	
<p>Impact/Consequence: The LEP will need to adjust to operate with a reduced level of staffing resource, limiting and prioritising the scope of work that can be delivered.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • 2018/19 Budget agreed by the LEP Board • Some financial reserves held by the LEP from previous financial years • Potential to call on financial resources relating to Enterprise Zone income if required • On-going monitoring of external funding landscape and actions to secure alternative sources • Medium term draft budget prepared 	
<u>Next Steps</u>	<u>Lead Officer(s)</u>
Budget management and forecasting on-going	Helen Golightly (Executive Director)
Creation of a new company limited by guarantee sitting alongside the LEP structure will enable the LEP to seek funding from other sources	Helen Golightly (Executive Director)

Governance Committee

North East Local Enterprise Partnership - Risk Management

<p><u>Increase in the role and scope of LEP's by Government with no new resource to support the additional responsibility(ies)</u></p> <p>Government fails to allocate sufficient operational budgets if they increase the role, scope and remit of LEP activity through changes in national policy.</p>	<p><u>Risk Owner</u> Executive Director</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p> <p>Likelihood – Medium Impact – Critical</p>
<p>Cause: Government are reviewing the role and scope of LEP activity as it introduces new economic development policies. There needs to be financial resources made available to LEPs to carry out any increased responsibility and activity.</p>	
<p>Impact/Consequence: The LEP operational budget does not have sufficient head-room to add any financial resource for additional staff. This could lead to current staff resource being spread too thinly, reducing impact and effectiveness and facilitating the delivery of the Strategic Economic Plan.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The LEP is working closely with Government to try to influence policy and its practical implications • LEP Network (national body) also lobbying Government 	
<u>Next Steps</u>	<u>Lead Officer(s)</u>
Continue to lobby and influence Government	Helen Golightly (Executive Director)
Consider and respond to any changes as they emerge	Helen Golightly (Executive Director)

Governance Committee

North East Local Enterprise Partnership - Risk Management

<p><u>Government Capital Funding</u></p> <p>Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP.</p>	<p><u>Risk Owner</u> Executive Director</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p>Cause: There is uncertainty around the design, function and level of future regional/local strategic capital funding sources from Government.</p>	
<p>Impact/Consequence: Without a clear understanding of future potential funding, the delivery of strategic projects related to the SEP post 2021 is at risk.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The refreshed SEP is strongly aligned to key Government policies, such as the Industrial Strategy • The LEP is working with Government to influence policy and funding thinking 	
<p><u>Next Steps</u></p>	<p><u>Lead Officer(s)</u></p>
<p>Continue to develop projects (where appropriate) to be ready to 'win' funding as it becomes available.</p>	<p>Helen Golightly (Executive Director)</p>
<p>Continue to work with Government and influence emerging policy thinking.</p>	<p>Helen Golightly (Executive Director)</p>

Governance Committee

North East Local Enterprise Partnership - Risk Management

<p><u>European Funding</u></p> <p>Failure of the North East LEP area to secure the notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.</p>	<p><u>Risk Owner</u> Executive Director</p> <p><u>Risk Score</u></p> <p style="background-color: yellow;">Amber 9</p> <p>Likelihood – Medium Impact – Significant</p>
<p>Cause: ESIF Programme implementation was delayed whilst the impact of the EU Referendum was reviewed by Government departments, leading to underperformance against profiled commitment/spend for some parts of the programme. The UK Shared Prosperity Fund is likely to replace the ESIF Programmes, however there is little detail on how this fund will operate and how much will be available, therefore the future funding opportunities are uncertain at this time.</p>	
<p>Impact/Consequence: The ability to secure the North East LEP area’s full quota of European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • In August 2016 Philip Hammond gave assurances that projects that are contracted before the Brexit deadline of March 2019 will be honoured by Government. This is on the understanding that these projects will meet additional value for money criteria set out by Government • The Combined Authority and the North East LEP have secured £58.5m of JEREMIE 2 grant funding (part of the European Regional Development Fund) and a Special Purpose Vehicle has been established to deliver funding for projects, supporting small and medium sized enterprises • The North East LEP have set up a number of partnership working groups to develop local content to feed into project calls to ensure the funding is appropriately focussed on local need • The North East Technical Assistance project, led by Northumberland County Council and consisting of the LEP and local authority partners; are supporting local partners with their ESIF applications to maximise access to the funding available • The Strategic Economic Plan has been refreshed to ensure its priorities remain current. The Plan is aligned to the ESIF Strategy, to direct the allocation of European Funding 2014-2020 to grow the North-East Economy • The North East has secured circa £151.7m European Regional Development Fund (ERDF), £73.3m European Social Fund (ESF) and £2.7m of European Agricultural Fund for Rural Development (EAFRD) to date out of the total notional allocation of €560m (£437m) 	
<p>Next Steps</p> <p>The North East LEP and other local partners are working with the Managing Authorities (DHCLG, DWP and Defra) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of €560m Euros.</p>	<p>Lead Officer(s)</p> <p>Heather Heward (Programme Manager)</p>

Governance Committee

<p>A further tranche of European Social Funding of circa £20m is being made available within the North East. The LEP is working closely with DCLG to inform the need for future funding to be released by central Government.</p>	<p>Heather Heward (Programme Manager)</p>
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Governance Committee

North East Local Enterprise Partnership - Risk Management

<p><u>North East devolution</u></p> <p>The LEP area covers 7 local authorities. The potential for the LEP area to have more than one combined authority may lead to a review of current governance structures and accountable body status.</p>	<p><u>Risk Owner</u> Executive Director</p>
	<p><u>Risk Score</u></p>
	<p>Amber 9</p>
	<p>Likelihood – Medium Impact - Significant</p>
<p>Cause: The North East Combined Authority’s decision not to proceed with a Mayoral Combined Authority and the withdrawal of the devolution deal has resulted in the North of Tyne Authorities securing a ‘minded to’ devolution deal for the North of Tyne area.</p>	
<p>Impact/Consequence: If a devolution deal for a Mayoral Combined Authority in the North of Tyne is agreed and implemented, the LEP, NECA and North of Tyne governance structures will need to be reviewed, along with the impact on the accountable body status.</p>	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The appointment of the North East LEP’s Executive Director to the position of NECA’s Head of Paid Service has further strengthened the partnership arrangements between the North East LEP and the seven local authorities • Service Level Agreements continue to provide key officer support and services to the LEP team from the local authorities • All seven local authorities are committed to supporting the North East LEP and the delivery of the SEP 	
<p><u>Next Steps</u></p> <p>Monitor the position and work with all seven local authorities, NECA and North of Tyne in the event of a North of Tyne Mayoral Combined Authority being created.</p>	<p><u>Lead Officer(s)</u></p> <p>Helen Golightly (Executive Director)</p>

North East Combined Authority

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Appendix D

Action plans must be developed for Red and Amber risks

Determine the risk priority					
Impact					
Likelihood		Insignificant	Minor	Significant	Critical
	High	4	8	12	16
	Medium	3	6	9	12
	Low	2	4	6	8
	Negligible	1	2	3	4

Assess the likelihood of the risk occurring	
High	Risk will almost certainly occur or is occurring at present
Medium	Risk is likely to occur in most circumstances
Low	Risk may occur
Negligible	Risk is unlikely to occur

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopping	<ul style="list-style-type: none"> Over half the objectives/programmes affected More than one critical objective affected Partners do not commit to the Shared vision 	<ul style="list-style-type: none"> Significant change in partner services Relationship breakdown between major partners and stakeholders Serious impact on delivery of Strategic Investment Plans Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project 	<ul style="list-style-type: none"> Inability to secure or loss of significant funding opportunity (£5m) Significant financial loss in one or more partners (£2m) Significant adverse impact on budgets (£3m – Transport / NELEP; £0.2m Central Budget) 	<ul style="list-style-type: none"> Adverse national media attention External criticism (press) Significant change in confidence or satisfaction of stakeholders Significant loss of community confidence
Significant	<ul style="list-style-type: none"> One or more objectives/programmes affected One or more partners do not commit to shared vision Significant environmental impact 	<ul style="list-style-type: none"> Partner unable to commit to joint arrangements Recoverable impact on delivery of Strategic Economic Plan Major project failure 	<ul style="list-style-type: none"> Prosecution Change in notable funding or loss of major funding opportunity (£2m) Notable change in a Partners contribution Notable adverse impact on budget (£0.5m-£1.5m Transport or NELEP budgets) 	<ul style="list-style-type: none"> Notable external criticism Notable change in confidence or satisfaction Internal dispute between partners Adverse national/regional media attention Lack of partner consultation Significant change in community confidence
Minor	<ul style="list-style-type: none"> Less than 2 priority outcomes adversely affected Isolated serious injury/ill health Minor environmental impact 	<ul style="list-style-type: none"> Threatened loss of partner's commitment 	<ul style="list-style-type: none"> Minor financial loss in more than one partner Some/loss of funding or funding opportunity threatened 	<ul style="list-style-type: none"> Failure to reach agreement with individual partner Change in confidence or satisfaction Minor change in community confidence
Insignificant	<ul style="list-style-type: none"> Minor effect on priorities/service objectives Isolated minor injury/ill health No environmental impact 		<ul style="list-style-type: none"> Isolated/minor financial impact in a partner organisation 	

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